information must be "the subject of efforts that are reasonable under the circumstances to maintain its secrecy." The text of the Kentucky Uniform Trade Secrets Act and the Uniform Trade Secrets Act, as amended, are included at App. "E" at 66a-78a.

Rule 56(c) of the Federal Rules of Civil Procedure provides, in part, "[t]he judgment sought shall be rendered forthwith if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law."

Rule 54(d)(1) of the Federal Rules of Civil Procedure provides, in part, "[s]uch costs may be taxed by the clerk on one day's notice. On motion served within 5 days thereafter, the action of the clerk may be reviewed by the court."

28 U.S.C. § 1920 provides that the "judge or clerk . . . may tax costs" for: "(2) Fees of the court reporter for all or any part of the stenographic transcript necessarily obtained for use in the case"; "(4) Fees for exemplification and copies of papers necessarily obtained for use in the case"; and "(6) Compensation . . . of interpreters."

STATEMENT OF THE CASE

The basis for jurisdiction in the court of first instance was diversity of citizenship.

BDT invented a new paper handling technology that used an angled-dam paper tray and drop-down arm to remove individual sheets from the stack of paper in a printer tray, rather than the long-accepted design in which the paper was

lifted from the bottom of the tray to a corner separator. BDT disclosed its inventions and designs to its customers, Hewlett Packard, Tektronix and Lexmark. All three companies incorporated BDT's technology into their own branded products. Hewlett Packard and Tektronix each paid BDT for BDT's contribution to their new products; Lexmark did not.

During the time in which BDT was attempting to interest Lexmark in its angled-dam tray, BDT was also a customer of Lexmark; buying Lexmark's printers to use in BDT's own branded line of products, which it sold for specialty applications. BDT received Lexmark's confidential information in connection with this relationship and signed a series of one-way and two-way Lexmark letter agreements concerning these disclosures.

The lower courts found that BDT lost its trade secrets in the course of dealing with its customers for three reasons: first, BDT lost its trade secrets because the agreements between BDT and Hewlett Packard and between BDT and Tektronix did not expressly protect BDT's trade secrets (App."B" at 20a-21a; App."D" at 48a-54a); second, BDT lost its trade secrets because Hewlett Packard released a printer with BDT's technology before Lexmark's release of its product (App."B" at 21a); and third, BDT lost its trade secrets under the agreements between BDT and Lexmark, which the court found authorized Lexmark to use BDT's information without compensation (App."B" at 21a-23a; App."D" at 55a-58a.).

As to the first reason -- the absence of express confidentiality agreements with Hewlett Packard and Tektronix -- the lower courts found that BDT could not rely on an implied duty of confidentiality, which BDT argued protected its trade secrets. The courts held that the Uniform

Trade Secrets Act does not recognize any such implied duties, even though the customers each agreed with BDT that BDT's disclosures were confidential. Despite this mutual understanding, the lower courts held that BDT lost its trade secrets, as a matter of law, because it did not obtain written confidentiality agreements from these customers. The concurring opinion would have reversed the grant of summary judgment on this ground following the principles recognized by the United States Court of Appeals for the Seventh Circuit in *Learning Curve Toys, Inc. v. Playwood Toys, Inc.*, 342 F.3d 714 (7th Cir. 2003) (App."B" at 25a-26a).

As to the second reason -- the release of the Hewlett Packard printer -- the district court did not rule on this ground for summary judgment, but the court of appeals found that the release of this product waived BDT's trade secrets as a matter of law. The court of appeals found the trade secrets were lost because the trade secrets were "ascertainable by proper means by the time the [Lexmark product] was released." (App."B" at 21a). In reaching this conclusion, the court of appeals dispensed with the long-established principle that prohibited Lexmark from claiming it *could* have designed its product with proper means where Lexmark *actually used* improper means to design its own product. The concurring opinion would have affirmed the summary judgment on this ground alone (App."B" at 26a).

As to the third reason -- the agreements between BDT and Lexmark -- the district court found that BDT could not offer evidence that the court concluded contradicted BDT's earlier pleadings in the case, which the court interpreted to have alleged the agreements applied to BDT's technology. The district court reached this conclusion even though these pleadings were amended years before with leave of court to delete those very allegations. The district court found that

BDT's position that the agreements applied only to BDT's purchase of Lexmark printers -- and not to the disclosure of the paper handling trade secrets -- was "in the abstract a valid legal position" (App."D" at 64a); but, nevertheless, would not allow BDT to rely on evidence supporting this assertion, based solely on the earlier, and by then, superseded pleadings. The court of appeals affirmed the district court's conclusion that these agreements precluded any claim for misappropriation without commenting on the district court's basis for reaching that conclusion (App"B" at 23a). The concurring opinion would have reversed on this ground as well (App."B" at 26a).

Following the grant of summary judgment, the district court, without notice, opted out of the procedure provided by Rule 54(d) of the Federal Rules of Civil Procedure and taxed all of the costs sought by Lexmark before the clerk had taken any action on Lexmark's cost bill. The court of appeals held that the district court has discretion to bypass the clerk and tax costs without notice (App."A" at 7a). The dissent would have reversed, finding the district court abused its discretion in using this procedure to tax costs without notice (App."A" at 11a).

The district court taxed costs for translation, deposition-related costs other than the transcripts themselves, and the costs of all of Lexmark's copying expenses and electronic database creation from these materials. The court of appeals affirmed the taxation of these costs even though they are not expressly authorized by 28 U.S.C. § 1920, finding that the district court had broad discretion to interpret that section and tax costs which it finds are reasonable (App"A" at 7a-11a).

REASONS FOR GRANTING THE PETITION

I. THE RULINGS BELOW SO FAR DEPART FROM THE PRINCIPLES OF *ERIE* AND ITS PROGENY AS TO CALL FOR AN EXERCISE OF THIS COURT'S SUPERVISORY POWERS

The Uniform Trade Secrets Act ("UTSA") was approved by the National Conference of Commissioners on Uniform State Laws in 1979.[1] Uniform Act, 14 Uniform Laws Annotated, p. 437 *et seq.* (1990) ("ULA"). The UTSA has been adopted in the vast majority of states, including Kentucky. See Kentucky Revised Statutes §§ 365.880 to 365.900 ("KUTSA"). By virtue of diversity jurisdiction, many actions brought under the UTSA have been heard and determined by federal courts. These courts, however, have occasionally departed from the principles established in *Erie R. Co. v. Tompkins* and subsequent cases by determining issues of fact and law based on their own policy choices. These decisions are subsequently cited by federal courts in other jurisdictions resulting in the creation of federal common law with regard to the UTSA. Unless this Court exercises its supervisory powers to curtail this infringement of states' authority, the practice will only worsen as each prior federal opinion serves as precedent for later ones.

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[1] The UTSA was subsequently amended in 1985.

A. The Court of Appeals Ruling Below Deviates From the Court's Duties in Diversity Cases by Ignoring the Clear Language of the State Statute

Almost seven decades ago, this Court in *Erie R. Co. v. Tompkins,* 304 U.S. 64 (1938), restricted the federal judiciary's power to supplant state law:

> "Except in matters governed by the Federal Constitution or by acts of Congress, the law to be applied in any case is the law of the state. And whether the law of the state shall be declared by its Legislature in a statute or by its highest court in a decision is not a matter of federal concern. There is no federal general common law." *Erie*, 304 U.S. at 78.

Further instructions on how the federal courts should determine and apply state law content were provided in *West v. American Tel. & Tel. Co.*, 311 U.S. 223, 237 (1940): "State law is to be applied in the federal as well as the state courts and it is the duty of the former in every case to ascertain from all the available data what the state law is and apply it rather than to prescribe a different rule, however superior it may appear from the viewpoint of 'general law.'"

Under the KUTSA, "trade secret" is defined as information that has independent economic value, is not readily ascertainable by proper means, and is the subject of *reasonable efforts to maintain its secrecy.* KRS § 365.880(4). The clear, plain and unambiguous language of the statute designates the issue regarding efforts to maintain secrecy as one of fact ("reasonable efforts"). Yet, the Sixth Circuit's decision, affirming the district court's grant of summary judgment in favor of Lexmark, held that BDT had not taken

reasonable steps to maintain the secrecy of its alleged trade secrets as a *matter of law*; therefore, the information did not qualify as actionable trade secrets (App."A" at 16a-21a). In so ruling, the Sixth Circuit rejected the informed decision of the drafters of the UTSA -- experts on the nuances of trade secret law -- that the issue is one to be decided by the trier of fact after a full and fair presentation of evidence.

In determining that the information at issue were not trade secrets, the Sixth Circuit ruled, without any guidance from the KUTSA or Kentucky courts, that an implied duty of confidentiality arising from the nature of the parties' relationship was insufficient to protect trade secrets (App."A" at 17a-19a). The Sixth Circuit acknowledged "that the definition of trade secrets in the Uniform Act 'nowhere requires a written agreement as a prerequisite to preservation of a trade secret' and that there must be 'express or implied consent' in order to lawfully disclose a trade secret." (App. "A" at 18a). The court, nevertheless, determined that where there is an existing written agreement and it does not provide for confidentiality, no such duty exists regardless of the understanding or nature of the parties' relationship (App. "A" at 20a-21a). Nowhere in the KUTSA can such a requirement be found. Rather, the KUTSA leaves it up to the jury to determine, based on all of the surrounding circumstances -- including presumably the content of the parties' agreements -- whether the efforts to maintain security were reasonable.

The Sixth Circuit (and the district court) engaged in its own judicial lawmaking and in so doing usurped the authority of the state, as expressed in the plain language of the statute. See *Hughes Aircraft Co. v. Jacobson,* 525 U.S. 432, 438 (1999) (statutory construction analysis begins and ends with the "language of the statute" where statutory language provides a clear answer).

In *Griffin v. City of Bowling Green,* 458 S.W.2d 456, 457 (Ky. 1970), Kentucky's highest court stated: "Where the words used in a statute are clear and unambiguous and express the legislative intent, there is no room for construction and the statute must be accepted as it is written." See also *Turner v. Turner,* 908 S.W.2d 124, 125 (Ky. App. 1995) (accord). When construing a state statute, the federal court looks to "state rules of statutory construction, because the same rules of construction apply in a federal court as would apply in a state court." *Municipal Utilities Bd. of Albertville v. Alabama Power Co.,* 21 F.3d 384, 387 (11th Cir. 1994); see also *Thomas v. Reliance Ins. Co.,* 617 F.2d 122, 125 (5th Cir. 1980) (where there were no state court interpretations of Texas statute, federal court was guided by rules Texas courts would be obliged to follow in interpreting statutes); and *Christensen v. Southern Normal School,* 88 F.Supp.2d 1310, 1315, n.2 (M.D. Ala. 2000) (in construing Alabama statute, district court applied plain language interpretation as required under Alabama law). The Sixth Circuit, and the district court, disregarded the state's rules of construction and imposed their own interpretation in opposition to the plain language of KRS § 365.880(4)(b).

In disregarding the Uniform Act's mandate that the issue of the *reasonableness* of BDT's efforts to maintain secrecy be decided by the trier of fact, the Sixth Circuit also deprived BDT of its right to a jury trial on a factual issue, in contravention of the federal policy favoring jury decisions of disputed fact questions and the "unassailable" jury trial right guaranteed by the Kentucky Constitution. See *Byrd v. Blue Ridge Rural Elec. Cooperative, Inc.,* 356 U.S. 525, 538 (1958); and *Steelvest, Inc. v. Scansteel Serv. Center, Inc.,* 908 S.W.2d 104, 108 (Ky. 1995).

B. The Court of Appeals Ruling Below Deviates From the Court's Duties in Diversity Cases by Relying Exclusively on Other Federal Cases Without an Analysis of State Court Authorities

Both the district court and the Sixth Circuit relied on opinions from other federal courts in ruling that the information at issue did not qualify as actionable trade secrets. For example, both courts cited *Dippin' Dots Patent Litigation,* 249 F.Supp.2d 1346 (N.D. Ga. 2003)[2] and *Rogers v. Desa Int'l. Inc.*, 183 F.Supp.2d 955 (E.D. Mich. 2002) as authority for their determinations that an implied duty arising from a confidential relationship is insufficient to protect trade secrets under the KUTSA (App. "B" at 17a-19a; App. "D" at 53a-54a). However, the courts' reliance on these authorities was erroneous and led to the federal district court and the Sixth Circuit following district court decisions from Michigan and Georgia with regard to a Kentucky statute. Neither the district court nor the Sixth Circuit ever considered what Kentucky's highest court would have decided on the issue.[3]

> "[T]he federal court must keep in mind that its function when divining the content of forum state law is not to choose the rule of law that it believes is 'better' in some sense or the rule of law that it would adopt for itself. The court must choose the rule that it

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[2] *Aff'd on other grounds sub nom, Dippin' Dots, Inc. v. Frosty Bites Distribution, LLC,* 369 F.3d 1197 (11th Cir. 2004).

[3] Petitioner does not believe that this step was necessary given the clear language of the statute. However, assuming that some guidance was required, the courts erred in looking to other federal decisions rather than determining what the state supreme court would have decided.

> believes the state's highest court, from all that is known about its methods of reaching decisions and the authorities it tends to rely on, is likely to adopt sometime in the not too distant future." Wright, Miller & Cooper, *Federal Practice and Procedure,* § 4507, p. 200 (2d ed. 1996).

It is true that the Kentucky Supreme Court has not addressed the issue in dispute with regard to the KUTSA; however, the federal court's "role in this diversity of citizenship case 'is to make [the] best prediction, even in the absence of direct state court precedent, of what the Kentucky Supreme Court would do if it were confronted with this question.'" *Managed Health Care Associates, Inc. v. Kethan,* 209 F.3d 923, 927 (6th Cir. 2000). See also *Owens Corning v. National Union Fire Ins. Co.,* 257 F.3d 484, 491 (6th Cir. 2001) (where state's highest court has not ruled on matter, federal courts in diversity actions must predict how it would rule, by looking to "all available data"); *McKenna v. Ortho Pharmaceutical Corp.,* 622 F.2d 657, 663 (3d Cir. 1980) ("federal court attempting to forecast state law must consider relevant state precedents, analogous decisions, considered dicta, scholarly works, and any other reliable data tending convincingly to show how the highest court in the state would decide the issue at hand"); *Marchesani v. Pellerin-Milnor Corp.,* 269 F.3d 481, 493 (5th Cir. 2001) (federal diversity court's task when making *Erie* guess is to predict state law, not to create or modify it); *North American Specialty Ins. Co. v. Lapalme,* 258 F.3d 35, 38 (1st Cir. 2001) ("Our duty is to make an informed prophecy -- to 'discern the rule the state's highest court would be most likely to follow under these circumstances, even if our independent judgment might differ.'"); and *Blair v. General Motors Corp.,* 838 F.Supp. 1196, 1199 (W.D. Ky. 1993) (federal court, finding no

published opinions interpreting state statute, must "attempt to project how Kentucky courts would rule on this question.").

Despite this impressive line of cases detailing the duties of the federal courts when applying substantive state law, neither the district court nor the Sixth Circuit engaged in the requisite analysis. Instead, the courts below simply relied on federal decisions from other jurisdictions, which, in turn, relied on other federal cases, thus creating a general federal common law with regard to the UTSA, in contravention of *Erie*.[4]

Although the Kentucky Supreme Court has not ruled on the issue directly, it has determined that the *reasonableness of conduct* is a *fact* question for the jury. As the cited authorities confirm, federal courts should look to "all available data," including analogous state cases in determining how the state's highest court would rule.

In *McCoy v. American Fidelity Bank & Trust Co.*, 715 S.W.2d 228 (Ky. 1986), an action was instituted by a creditor bank to recover a deficiency remaining after sale of collateral upon default. At issue was the determination of "reasonable notice" under another uniform act -- the Uniform Commercial Code. The jury determined that the notice was not reasonable and the trial court entered judgment on a verdict for the debtors. The court of appeals reversed, holding that whether or not a notice is commercially reasonable is a question of law for the court to decide. The Kentucky Supreme Court

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[4] Petitioners requested the court of appeal not follow the *Rogers* and *Dippin' Dots* cases, on which the district court relied, because those courts had not "cited a single authority under Kentucky law to support their strict interpretation of KUTSA." Opening Brief, p. 46.

reversed the appellate court and held that the question of whether the notice of sale was commercially reasonable was a question of fact for the jury. In so holding, the Court pronounced:

> "These rules do nothing more than treat commercial reasonableness as an ultimate fact for a jury to determine in this type of transaction, the same as in other areas where reasonable conduct is at issue. The *School Supply Co., Inc.* case errs when it treats the question of what is 'commercially reasonable' differently than what is reasonable in other fields of human conduct. There is no such classification as 'ultimate or conclusory fact . . . for the court to determine.' *School Supply Co., Inc. v. First Nat. Bank, supra* at 203. The issue in conduct of commerce, as with other business enterprises, is not a 'conclusory matter' for the court rather than a jury issue when the state of the evidence is such that, although the evidentiary facts are not in dispute, reasonable minds can differ as to the appropriate ultimate or conclusory facts which may be inferred from the evidence."
>
> . . .
>
> "There is no special rule that ultimate or conclusory facts are for the courts to decide in commercial transactions. Unless reasonable minds cannot differ on the conclusions, the ultimate facts are for the jury to decide. In *Horton v. Union Light, Heat & Power Co., supra,* we stated:
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> > 'The role of the jury in interpreting the evidence and finding the ultimate facts is an

> American tradition so fundamental as to merit constitutional recognition. U.S. Const. Amend. VII; Ky. Const. Sec. 7. . . . It may well be that deciding when to take a case away from the jury is a matter of degree, a line drawn in sand, but this is all the more reason why the judiciary should be careful not to overstep the line.' 690 S.W.2d at 385." *McCoy,* 715 S.W.2d at 231.

In *McCoy,* the facts regarding the method by which notice was given were not in dispute, only the reasonable inferences that could be drawn from the evidence. The ultimate fact -- the reasonableness of the notice -- was within the jury's province. *Id.*

So, too, in this case, a jury might reasonably have reached an opposite conclusion from the district court and the Sixth Circuit regarding whether BDT's claimed trade secrets were protected by the inherently confidential relationships between BDT and Lexmark and whether, under the circumstances, BDT's efforts to maintain secrecy were reasonable. Indeed, there was significant testimony that all parties, including Lexmark's employees, understood that the information regarding BDT's paper tray design was confidential (App. "B" at 17a and 22a-23a; App. "D" at 31a and 53a-54a).

The UTSA is to be applied and construed to make uniform the law among the states enacting it. UTSA § 8, 14 ULA, p. 465 (1990). However, the federal courts, in the context of relevant precedent, which itself represents merely policy choices made by earlier judges, cannot disregard their duty to determine how the states' highest courts would rule and impose their own policy decisions instead.

An extreme example of the nonsensical results that can occur when federal courts are permitted to impose their own policy decisions with regard to substantive state law is the Sixth Circuit's ruling regarding "improper means." The court, in a single paragraph, determined that the release of Hewlett Packard's HP4v printer meant that BDT's trade secrets were ascertainable by "proper means" and, therefore, as a matter of law not actionable (App."B" at 21a). The only authority cited to support this holding is the decision from the district court in Georgia -- *Dippin' Dots*, 249 F.Supp.2d at 1375. But, *Dippin' Dots* only mentions the "proper means" requirement in a *generic* discussion of the definition of trade secrets; the issue is not dealt with substantively in any fashion whatsoever. Hence, the Sixth Circuit has created federal law with regard to a Kentucky statute based solely on a lower federal court decision from Georgia that never even considered the subject.[5]

C. The Sixth Circuit's Rulings Conflict With the Decisions of Other Circuits and the Kentucky Supreme Court

The Sixth Circuit decision (and the other federal decisions it relies on) has created the very conflict in authorities that the UTSA was intended to avoid. See UTSA § 8, 14 ULA, p. 465 (1990) ("This [Act] shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this [Act] among states enacting it.").

Unlike the Sixth Circuit, the majority of federal courts are very careful to avoid specific principles concerning what

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[5] The Sixth Circuit's ruling is also in conflict with the holdings of other courts, as discussed on pp. 19-20, *infra*.

conduct is "reasonable under the circumstances" and hold that the definition of trade secrets is inherently factual and not subject to universal rules. See, e.g., *Harvey Barnett, Inc. v. Shidler,* 338 F.3d 1125, 1129 (10th Cir. 2003) ("Trade-secret status is a question of fact."); *Sheets v. Yamaha Motors Corp.,* 849 F.2d 179, 183 (5th Cir. 1988) ("The determination of whether relative secrecy exists in a particular case is a question of fact"); *Gronholz v. Sears, Roebuck & Co.*, 869 F.2d 390, 393 (8th Cir. 1989) ("The issue of whether a plaintiff took reasonable steps under the circumstances to maintain the secrecy of information is an issue of fact.")

Recently, the Seventh Circuit reversed a judgment as a matter of law based on the district court's post-verdict determination that the plaintiff did not protect a trade secret in the modification of a wooden track for a toy train. *Learning Curve Toys, Inc. v. Playwood Toys, Inc.*, 342 F.3d 714 (7th Cir. 2003). The court reversed after applying the following standards:

> "The existence of a trade secret ordinarily is a question of fact. As aptly observed by our colleagues on the Fifth Circuit, a trade secret 'is one of the most elusive and difficult concepts in the law to define.' In many cases, the existence of a trade secret is not obvious; it requires an ad hoc evaluation of all the surrounding circumstances. For this reason, the question of whether certain information constitutes a trade secret ordinarily is best 'resolved by a fact finder after full presentation of evidence from each side.'" *Learning Curve,* 342 F.3d at 723 (citations omitted).

As discussed above, the KUTSA itself confirms that the existence of a trade secret is a question of fact since the steps

taken to preserve secrecy need only be "*reasonable under the circumstances.*" KRS § 365.880(4)(b); see also *Surgidev Corp. v. Eye Technology, Inc.*, 828 F.2d 452, 455 (8th Cir. 1987) ("Only reasonable efforts, not all conceivable efforts, are required to protect the confidentiality of putative trade secrets."). As such, the court should only adjudicate the existence of a trade secret as a matter of law in an extreme case. See *Rivendell Forest Prods., Ltd. v. Georgia-Pacific Corp.*, 28 F.3d 1042, 1045 (10th Cir. 1994) ("A determination as to the existence of a trade secret as a fact issue requires doubts as to existence of triable issues of fact which must be resolved in favor of the existence of triable issues); and *Learning Curve,* 342 F.3d at 725 ("only in an extreme case can what is a 'reasonable' precaution be determined [as a matter of law], because the answer depends on a balancing of costs and benefits that will vary from case to case."). This case is not such a case, as Judge Merritt, in a concurring opinion, observed:

> "The fact that here there were written contracts expressly giving Lexmark confidentiality protection, but not BDT, certainly weakens BDT's claims, as the Court concludes. But a reasonable jury might still find that BDT's claimed trade secrets were protected by the inherently confidential relationships between the designer, BDT, and its clients, Lexmark, Hewlett Packard and Tektronix. Officials from Hewlett Packard and Tektronix gave depositions in which they testified that officials of those clients considered similar BDT design information confidential in the absence of a written agreement." (App."B" at 26a).

The Sixth Circuit's decision that there is no implied duty of confidentiality as a matter of law is also in conflict with decisions from other federal courts which recognize that the

circumstances of the parties' relationship can create such a duty. As Judge Merritt noted, the Seventh Circuit in *Learning Curve, supra*, "reviewed trade secret cases and concluded that confidentiality may be implied from the circumstances and the conduct of the parties without a written agreement protecting the designer." (App."B" at 24a). See also *Gronholz,* 869 F.2d at 393 (finding that a confidential relationship can arise by operation of law based on the facts and circumstances); and *Phillips v. Frey,* 20 F.3d 623, 629 (5th Cir. 1994) ("protection will be awarded to a trade secret holder against the disclosure or unauthorized use by those to whom the secret has been confided under either express or implied restriction of nondisclosure . . .").

The district court below refused to consider a line of cases supporting the idea of an implied duty, because the cases did not arise under the UTSA (App."D" at 54a, fn.6). This "reasoning" stems from the *Dippin' Dots* and *Rogers* decisions on which the courts below relied for their rulings. *Dippin' Dots* asserts that common law is irrelevant because of the Uniform Act's statutory focus on whether a plaintiff used reasonable efforts to protect the confidentiality of its trade secrets. (App."D" at 53a-54a). Yet, it is only because these courts have determined that there is no implied duty as a matter of law under the UTSA that the facts demonstrating such a duty are irrelevant. This violates the very essence of the UTSA, as proclaimed in the Act's Prefatory Note: "The Uniform Act codifies the basic principles of common law trade secret protection." 14 ULA, p. 433 (1990). Other Act states, as discussed, continue to recognize implied duties under common law precedent and principles. See *Gronholz,* 869 F.2d at 393; and *Learning Curve,* 342 F.3d at 726. The result is a Balkanization of trade secret law regarding implied duties of confidentiality: (1) Act jurisdictions that recognize implied duties; (2) Act jurisdictions that do not recognize

implied duties; and (3) common law jurisdictions that recognize implied duties (see, e.g., *Burten v. Milton Bradley Co.*, 763 F.2d 461, 463-466 (1st Cir. 1985) (applying Massachusetts law)).

The Sixth Circuit decision is not only in conflict with other federal courts, it is also at odds with its own previous holding and with the Kentucky Supreme Court's determination that "reasonableness" is a fact question for the jury to decide. See *Hoover Transp. Services, Inc. v. Frye,* 77 Fed.Appx. 776, 782, 2003 WL 22128759 at 5 (6th Cir. 2003) (unreported) ("The question of whether something is a trade secret is a question of fact to be determined by the trier of fact upon the greater weight of the evidence."); and *McCoy v. American Fidelity Bank & Trust Co.,* 715 S.W.2d 228, 231 (Ky. 1986), discussed at p. 12-14, *supra.*

Additionally, the Sixth Circuit's cursory ruling that the release of Hewlett Packard's HP4v printer negated any actionable trade secrets because they were "ascertainable by proper means" (App."B" at 21a) dispenses with the long-established principle that the defendant cannot rely on the position that it *could have* ascertained the trade secrets by proper means where, in fact, it used improper means to acquire the information. As discussed in Milgrim on Trade Secrets, § 15.01[1][d][iv], p. 15-71: "Wrongful use is not excused simply because the same result could have been achieved through independent efforts or through careful scrutiny of public documents. Therefore, a defense based on conjectural uses when the actual use was wrongful will be rejected."

In failing to consider this essential principle, both legally and factually, the Sixth Circuit's decision conflicts with those of other federal courts. In *Franke v. Wiltschek,* 209 F.2d 493

(2d Cir. 1953), the defendants contended that the heart of the plaintiffs' manufacturing process was revealed by an expired patent. In response the Second Circuit stated:

> "This totally misconceives the nature of plaintiffs' right. Plaintiffs do not assert, indeed cannot assert, a property right in their development such as would entitle them to exclusive enjoyment against the world. Theirs is not a patent, but a trade secret. The essence of their action is not infringement, but breach of faith. It matters not that defendants could have gained their knowledge from a study of the expired patent and plaintiffs' publicly marketed product. The fact is that they did not. Instead they gained it from plaintiffs via their confidential relationship, and in so doing incurred a duty not to use it to plaintiffs' detriment. This duty they have breached." *Franke,* 209 F.2d at 495.

Other circuit courts are in agreement. See, e.g., *Goldberg v. Medtronic, Inc.*, 686 F.2d 1219, 1226-1227 (7th Cir. 1982) (and cases cited therein) (existence of public disclosures relevant only so far as defendant actually relied on them); *Richardson v. Suzuki Motor Co., Ltd.*, 868 F.2d 1226, 1243 (Fed. Cir. 1989) (applying California law) (possibility of independent discovery does not relieve defendant of liability); *Clark v. Bunker,* 453 F.2d 1006, 1010 (9th Cir. 1972) (trade secret not negated because defendant might have collected the same information from public sources). The court's decision below also contravenes prior precedent within the Sixth Circuit. See *Vitro Corp. of America v. Hall Chemical Co.*, 254 F.2d 787, 793 (6th Cir. 1958) (fact that trade secrets could have been discovered through similar experimentation does not eliminate liability (citing *Franke, supra*)).

D. The Issue Concerns an Important Federal Question

The Sixth Circuit decision, and the other federal decisions on which it relied, have so far departed from this Court's pronouncements regarding the role of the federal judiciary in diversity cases as to call for the exercise of this Court's supervisory powers. These wayward courts are intruding into the process of state government by creating a federal common law with regard to the UTSA, a state law. Their rulings that there is no implied duty of confidentiality under the UTSA has eviscerated existing common law and will have a chilling effect on the development and commercialization of ideas that would benefit society as a whole. Few start-up companies or individual inventors have the clout necessary to demand a written confidentiality agreement from potential investors before those investors have even had the opportunity to learn about the idea or product. "The concept of a federal general common law, lurking (to use Justice Holmes' phrase) as a 'brooding omnipresence in the sky,' was questioned for some time before being firmly rejected in *Erie R. Co. v. Tompkins*." *Salve Regina College v. Russell*, 499 U.S. 225, 226 (1991).

The Sixth Circuit's actions have also created the very conflict that the UTSA was intended to prevent. Its rulings in this case not only conflict with earlier Sixth Circuit decisions, they also conflict with other federal circuit and district court decisions. Moreover, the decision, by failing to consider how the Kentucky Supreme Court would have ruled, has created the potential for two divergent systems of law within the state of Kentucky. The Kentucky Supreme Court has pronounced that "reasonableness" is a fact question to be determined by the jury. "[T]he highest court of the state is the final arbiter of what is state law." *West v. American Tel. & Tel. Co.*, 311 U.S. 223, 236 (1940).

Should the Sixth Circuit be allowed to continue to formulate its own rules for what conduct is reasonable, forum shopping and inequitable administration of the law are inevitable. See *Salve,* 499 U.S. at 234 (describing twin aims of *Erie* doctrine).

> "[T]he obvious purpose of § 34 of the Judiciary Act is to avoid the maintenance within a state of two divergent or conflicting systems of law, one to be applied in the state courts, the other to be availed of in the federal courts, only in case of diversity of citizenship. That object would be thwarted if the federal courts were free to choose their own rules of decision whenever the highest court of the state has not spoken." *West,* 311 U.S. at 236.

The responsibility for the proper functioning of the federal bench rests with this Court. Unless the lower courts are reminded of the limits of their judicial lawmaking powers in diversity cases, there is a significant danger of two inconsistent regimes of substantive law under the UTSA in Kentucky and other states.

II. THE COURT SHOULD GRANT CERTIORARI TO RESOLVE THE ISSUE OF HOW THE DISTRICT COURTS SHOULD TREAT ALLEGATIONS IN A SUPERSEDED PLEADING FOR PURPOSES OF A MOTION FOR SUMMARY JUDGMENT

As an alternative ground for summary judgment, Lexmark asserted that the letter agreements between Lexmark and BDT gave Lexmark the right to use all of BDT's trade secrets without compensation. Lexmark relied exclusively on BDT's earlier pleading in the case, which Lexmark interpreted to allege that these agreements covered the disclosures of BDT's angled-dam technology. BDT opposed the motion with direct and circumstantial evidence that these agreements applied only to other business relationships between BDT and Lexmark, primarily Lexmark's providing its confidential information to BDT in connection with BDT's purchase of Lexmark printers. This evidence included the declaration of Glenn Klein, BDT's representative, which explained that the agreements did not, by their terms or under the circumstances, apply to Lexmark's use of BDT's trade secrets in the design or testing of its angled dam tray; and the deposition testimony of Lexmark employees that they considered BDT's information to be confidential, not to be shared even within groups in Lexmark.

The district court found that BDT's position that the agreements did not apply was "in the abstract a valid legal position," (App."D" at 64a) but nevertheless granted summary judgment on this ground because the court interpreted BDT's earlier pleadings as alleging that the agreements covered these disclosures. The district court treated BDT's earlier verified pleadings as sworn testimony and applied the principle articulated in *Cleveland v. Policy Mgmt. Sys. Corp.*, 526 U.S. 795, 806 (1999), that a party cannot raise a triable issue of fact to defeat summary

judgment by contradicting an earlier sworn statement, at least without a sufficient explanation for the contradiction. The district court rejected BDT's argument that the pleadings should not be considered because they had been amended, with leave of court, to delete the allegations on which Lexmark relied (App."D" at 64a).

The court of appeals confusingly stated that it did not reach the issue of whether BDT was bound by the earlier pleadings (App."B" at 23a), but affirmed after determining the "district court was correct in its conclusion" that the agreements authorized Lexmark's use of BDT's information. *Id.* In this circular fashion, the court of appeals actually endorsed the holding that the earlier pleadings controlled because that was the sole basis for the district court's conclusion; and that otherwise, the district court agreed that BDT had presented a "valid legal position" that the agreement did not apply. The concurring opinion would have reversed on this ground (App."B" at 26a).

Although the procedural background is somewhat convoluted, the district court and the court of appeals have now held that a superseded pleading can be used to support a motion for summary judgment and that the opposing party cannot contradict the allegations in that pleading even though the pleading has been amended with leave of court. This conclusion, however, is at odds with well-established law that the superseded pleading is no longer relevant to the proceedings (see, e.g., *Washer v. Bullitt County*, 110 U.S. 558 (1884)) and should not even be considered on a motion for summary judgment, even if the superseded pleading was verified. *King v. Dogan*, 31 F.3d 344, 346 (5th Cir. 1994). These basic principles are summarized in the leading treatises as: "When the pleading previously has been stricken or amended the court may not consider it in passing on a motion

for summary judgment" (Wright, Miller, & Kane, *Federal Practice and Procedure*, § 2722, p. 368 (3d ed. 1998)); and a superseded verified complaint "cannot be used as competent evidence to support or oppose a summary judgment motion." 5 Moore's Federal Practice § 56.14[1][a].

BDT respectfully requests the Court grant certiorari to resolve this disagreement in the lower courts and to clarify whether a pleading amended with leave of court can be used to support a motion for summary judgment and, if so, whether the earlier pleading should be treated as sworn testimony which the opposing party cannot contradict without a sufficient explanation.

III. THE COURT OF APPEALS MATERIALLY DEPARTED FROM ESTABLISHED AND ACCEPTED PROCEDURES AND AFFIRMED THE TAXATION OF COSTS NOT PROVIDED BY THE CONTROLLING STATUTE

The court of appeals interpreted Rule 54(d) of the Federal Rules of Civil Procedure, which provides in part that the clerk "may" tax costs and the court "may" review this award on objections filed by the losing party, as granting the district court discretion to tax costs in the first instance without notice to the parties and without giving the losing party the opportunity to explain the bases for any objections. Pointing out there is no authority for such a procedure, the dissent would require advance notice that the district court intended to deviate from the procedure outlined in Rule 54(d). (App. "A" at 11a-12a.)

Now, given the decision by the majority in the published opinion of the court of appeals, district courts are entirely free to ignore Rule 54(d), without notice to the losing party, and tax costs without any review by the clerk. Moreover, again

without notice, the losing party -- such as was the case here -- can be forced to pay costs that it did not disprove were taxable without any idea of who would decide this issue and when the taxation would be decided. BDT respectfully submits that the court of appeals decision that Rule 54(d) is optional with regard to notice to the adverse party, coupled with the conclusion that the adverse party is required to rebut the presumption that the costs are taxable without knowing when and where to do so, is such a departure from established procedures and precedent as to warrant this Court's review.

Likewise, apart from this procedural issue, the decision by the court of appeals on the items which the district court has discretion to tax, is also such a departure from accepted precedent as to warrant this Court's review. That is, under the court of appeals decision, the district court has discretion to tax costs for: translation of documents, even though the statute limits taxation to "compensation of interpreters" (28 U.S.C. § 1920(6))[6]; "video services, rough disk, interactive realtime video tapes, and the synchronization of the video and deposition transcripts," even though the statute limits recovery to only the "stenographic transcript" (28 U.S.C. § 1920(2)); and costs of "electronic scanning and imaging of documents," even though the statute only allows for recovery of the charges for "exemplification and copies" of documents (28 U.S.C. § 1920(4)). (App."A" at 8a-11a). Based on the theory that the district court has broad discretion to "interpret the meaning of items listed in section 1920," the court of

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[6] The district court in *Viacoa Aerea Sao Paulo v. International Lease Finance Corp.*, 119 F.R.D. 435, 440 (C.D. Cal. 1988), overruled on other grounds, *Alflex Corp. v. Underwriters Laboratories, Inc.*, 914 F.2d 175 (9th Cir. 1990), held translation costs are not taxable because they are not listed in § 1920(b).

appeals has now given the district courts the authority to award costs not expressly mentioned in the statute, which is directly in conflict with this Court's holding that the district courts are "bound by the limitations set out in 28 U.S.C. §§ 1821 and 1920." *Crawford Fitting Co. V. J. T. Gibbons, Inc.*, 482 U.S. 437, 445 (1987).

This Court may be particularly concerned with the taxation of deposition related costs and the expenses associated with Lexmark's creation of an electronic document database given the frequency with which these charges are now incurred in civil cases. The statute narrowly defines the costs which can be taxed -- for example, the costs only of the "court reporter" and the "stenographic transcript." A party, such as Lexmark does here, can choose to incur expenses for videotaping, rough transcripts, and the electronic synchronization of the text with the video, but these charges are for its own convenience and simply not covered by the statute. These collateral expenses, as they did here, can cost more than the transcript itself, exponentially increasing the costs to be taxed in a manner which cannot be evaluated during the prosecution of the case.

Likewise, the statute narrowly defines the copying costs that can be incurred, but the court of appeals decision gives the district courts discretion to interpret the statute -- which is limited to costs for "exemplification and copies" -- to include the creation of an electronic database of documents without regard to whether the database was ever used or displayed in

court.[7] Again, these expenses are for the convenience of the party incurring the expense and are not recoverable because they are not referenced in the statute.

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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Counsel for Petitioners

Dated: July 15, 2005

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[7] The Seventh Circuit would only tax costs for imaging exhibits actually used at trial. *Cefalu v. Village of Elk Grove*, 211 F.3d 416, 427-28 (7th Cir. 2000). The Sixth Circuit does not recognize this limitation.

APPENDIX A

UNITED STATES COURT OF APPEALS
FOR THE SIXTH CIRCUIT

No. 03-6587

[Filed April 20, 2005]

BDT PRODUCTS, INC.;	)
BURO-DATENTECHNIK GMBH &	)
COMPANY KG,	)
Plaintiffs-Appellants,	)
	)
v.	)
	)
LEXMARK INTERNATIONAL, INC.,	)
Defendant-Appellee.	)
	)

Appeal from the United States District Court
for the Eastern District of Kentucky at Lexington
No. 99-00061
Joseph M. Hood, District Judge

Before: MERRITT, GIBBONS, and ROGERS
Circuit Judges.

OPINION

JULIA SMITH GIBBONS, Circuit Judge. The district court granted Lexmark's motions for summary judgment in the underlying litigation and entered judgment in favor of Lexmark on September 2, 2003.[1] On October 2, 2003, Lexmark submitted its bill of costs seeking $348,303.41. BDT filed objections to Lexmark's bill of costs on October 16, 2003. The district court rejected BDT's objections and ordered the clerk to tax the costs as laid out in Lexmark's bill of costs, which the clerk did on November 7, 2003. BDT now appeals that order of the district court. For the reasons set forth below, we affirm the decision of the district court.

I.

Lexmark, as the prevailing party in the underlying litigation, filed a bill of costs other than attorneys' fees pursuant to Federal Rule of Civil Procedure 54(d)(1).[2] Lexmark provided two attorney declarations along with a spreadsheet with the claimed costs and underlying invoices. Lexmark also provided a spreadsheet listing the vendor for each charge, billing information, comments, and the amount for each charge. The district court taxed the costs itself, thus bypassing the taxing of costs by the clerk.

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[1] The judgment is the subject of the appeal in case number 03-6293.

[2] According to appellee's brief, Lexmark also filed a motion asking the district court to award reasonable attorneys' fees and nontaxable costs pursuant to Federal Rule of Civil Procedure 54(d)(2). The district court stayed the motion pending the outcome of BDT's appeal of the underlying judgment.

BDT objected to three categories of charges: translating expenses, charges related to videotaped depositions, and copying and scanning costs. BDT argued that Lexmark did not indicate which documents were translated, why those documents were translated, or how the documents were used in the case. BDT also argued that Lexmark made no attempt to separate charges for depositions actually used in the defense of the case or to identify which documents were copied and used. The district court ordered the clerk to tax the full $348,303.41 requested in Lexmark's bill of costs.

II.

Under Rule 54(d) of the Federal Rules of Civil Procedure, "costs other than attorneys' fees shall be allowed as of course to the prevailing party unless the court otherwise directs." Fed. R. Civ. P. 54(d)(1). When reviewing an award of costs on appeal, this court must first "determine that the expenses are allowable cost items and that the amounts are reasonable and necessary." *Baker v. First Tenn. Bank Nat'l Ass'n*, 1998 U.S. App. LEXIS 5769, No. 96-6740, 1998 WL 136560, at * 2 (6th Cir. Mar. 19, 1998) (citing *Northbrook Excess & Surplus Ins. Co. v. Procter & Gamble Co.*, 924 F.2d 633, 642 (7th Cir. 1991)). "As long as statutory authority exists for a particular item to be taxed as a cost, we [do] not overturn a district court's determination that the cost is reasonable and necessary, absent a clear abuse of discretion." *Id.*

A.

Rule 54(d) of the Federal Rules of Civil Procedure establishes that the prevailing party shall be allowed to

recover its costs unless the court directs otherwise.[3] Costs that may be taxed are specified in 28 U.S.C. § 1920.[4] The usual procedure is for the clerk to fix the costs, after which a motion may be made for judicial review of the clerk's decision. The motion must be served within five days after the

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[3] Fed. R. Civ. P. 54(d)(1) states:

Costs Other than Attorneys' Fees. Except when express provision therefor is made either in a statute of the United States or in these rules, costs other than attorneys' fees shall be allowed as of course to the prevailing party unless the court otherwise directs; but costs against the United States, its officers, and agencies shall be imposed only to the extent permitted by law. Such costs may be taxed by the clerk on one day's notice. On motion served within 5 days thereafter, the action of the clerk may be reviewed by the court.

[4] 28 U.S.C. § 1920 states:

A judge or clerk of any court of the United States may tax as costs the following:

(1) Fees of the clerk and marshal;

(2) Fees of the court reporter for all or any part of the stenographic transcript necessarily obtained for use in the case;

(3) Fees and disbursements for printing and witnesses;

(4) Fees for exemplification and copies of papers necessarily obtained for use in the case;

(5) Docket fees under section 1923 of this title;

(6) Compensation of court appointed experts, compensation of interpreters, and salaries, fees, expenses, and costs of special interpretation services under section 1828 of this title.

clerk has taxed the costs. Fed. R. Civ. P. 54(d)(1). "The function of the court in the process of taxing costs is merely to review the determination of the clerk. Therefore, nothing normally can come before the court until the clerk has acted and an objection has been made." 10 C. Wright, A. Miller, and M. Kane, *Federal Practice and Procedure: Civil* 3d § 2679 (1998). "However, several courts have rejected that suggestion either implicitly or explicitly and have acted on motions relating to costs prior to any action by the clerk." *Nelson v. Darragh Co.*, 120 F.R.D. 517, 518 (W.D. Ark. 1988) (holding that the trial court may act before the clerk taxes costs). One rationale for court action prior to a determination by the clerk is that the language of Rule 54 – "may be taxed by the clerk" – is permissive rather than mandatory. Fed. R. Civ. P. 54(d)(1). *See Deering, Milliken & Co. v. Temp-Resisto Corp.*, 169 F. Supp. 453, 456 (S.D.N.Y. 1959); *Nelson*, 120 F.R.D. at 518.

In the present case, BDT argues that it was not given the one-day notice that the costs were to be taxed or the opportunity to present its objections to the court because the court bypassed the clerk and taxed the costs itself. The district court did not explicitly state its reasons for bypassing the clerk, but rather stated that "[b]eing sufficiently advised, the Court shall now take up this matter." In its reply brief, BDT urges the court to "hold that the district court must advise the parties of its intention to depart from the procedure outlined by Rule 54(d) and give the parties a reasonable time to present their arguments to the court before the taxation of costs." BDT is essentially arguing that "the ground rules should be clear before the district court decides to bypass the clerk."

BDT alleges that it suffered prejudice as a result of the costs being taxed by the district court as opposed to the clerk

because there was no opportunity to state the bases for its objections.[5] Specifically, BDT claims that it "only filed its objections as a courtesy to the clerk to identify the items in dispute; the objections were not intended as a legal brief on why the items should not be taxed." It also claims that it did not receive one day's notice before the taxation nor the opportunity to contest the action.

Lexmark argues that BDT was given notice when Lexmark served its bill of costs to BDT on October 2, 2003. Lexmark's position is that the clerk was authorized to tax costs anytime after October 6, 2003. *See United States v. Carson*, 52 F.3d 1173, 1190 (2d Cir. 1995) (noting that per Rule 6(e), service of bill of costs by mail adds three days to the one-day notice required by Rule 54(d)). BDT did not file objections to Lexmark's bill of costs until October 16, 2003. Lexmark filed its response to BDT's objections on October 31, 2003. BDT did not object or reply to Lexmark's response. The district court's memorandum opinion and order was filed and the costs were taxed by the clerk on November 7, 2003.

Lexmark further argues that "the fact that the district court and not the clerk addressed the issue of taxation of costs in the first instance is of no consequence," because taxation of costs by the clerk is subject to *de novo* review by the

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[5] BDT argues, and the dissent agrees, that it was never given an opportunity to fully articulate its objections to the assessment of costs. If indeed BDT was deprived of the opportunity to state its objections more completely in the district court, it has now had the full opportunity to brief and argue all objections on appeal. Yet, BDT has failed to present any persuasive argument that the district court was incorrect in its conclusions or abused its discretion. Given this failure, any additional opportunity to present objections in the district court would have been futile.

district court. *See Farmer v. Arabian Am. Oil Co.*, 379 U.S. 227, 233, 85 S. Ct. 411, 13 L. Ed. 2d 248 (1964) (holding that on review of the clerk's taxation of costs, "it was [the district judge]'s responsibility to decide the cost question himself"). Lexmark also argues that the language of Rule 54 is permissive and that 28 U.S.C. § 1920 expressly provides that either a "judge or clerk" may tax costs. Lexmark urges the court to hold that "Rule 54(d) . . . does not operate to divest the district court of its statutory and inherent authority to award costs without action by the clerk."

BDT is correct in its assertion that there is no controlling case authority on this issue. We adopt the reasoning of *Nelson* and *Deering, Milliken* and hold that the district court has the inherent and statutory authority to act on motions related to costs prior to any action by the clerk based on the permissive language of Rule 54, the language of § 1920, and the fact that any decision by the clerk would have been subject to *de novo* review by the district court.

B.

The basic rule for what costs may be taxed in federal court is provided by 28 U.S.C. § 1920. The court has broad discretion in allowing or disallowing the particular items listed in § 1920 as costs. *See Hodge v. Seiler*, 558 F.2d 284, 287 (5th Cir. 1977). The Supreme Court has held that "federal courts are bound by the limitations set out in . . . § 1920." *Crawford Fitting Co. v. J.T. Gibbons, Inc.*, 482 U.S. 437, 445, 107 S. Ct. 2494, 96 L. Ed. 2d 385 (1987). *See also Trepel v. Roadway Express, Inc.*, 266 F.3d 418, 427 (6th Cir. 2001). However, "[i]t is generally recognized that courts may interpret the meaning of items listed in . . . § 1920." Kurtis Kemper, Annotation, *Taxation of Costs Associated With Videotaped Depositions Under 28 U.S.C.A. § 1920 and Rule*

54(d) of Federal Rules of Civil Procedure, 156 A.L.R. Fed. 311 (2004).

BDT argues that the district court abused its discretion by taxing as costs items not authorized by § 1920. BDT specifically takes issue with translation costs, deposition expenses, and copying charges claimed by Lexmark.

BDT acknowledges that § 1920(6) permits taxation of costs for interpreters but argues that translating costs are not taxable under § 1920 because they are not listed in the statute. Because courts may interpret the meaning of items listed in § 1920, costs related to translation fit under the statute. The definition of interpret expressly includes to "translate into intelligible or familiar language." Webster's Third New International Dictionary 1182 (1981). There is also case law holding that translation costs are taxable under § 1920. *See Oetiker v. Jurid Werke, GmbH*, 104 F.R.D. 389, 393 (D.D.C. 1982) (holding that the court does have the power to tax costs of translation of foreign documents as long as they were necessary for proper determination of issues presented and of material aid to the court in resolving disputed issues of fact); *Quy v. Air Am., Inc.*, 215 U.S. App. D.C. 181, 667 F.2d 1059, 1065-66 (D.C. Cir. 1981) (finding that translation services fall within the meaning of "interpreters"). The district court did not abuse its discretion in taxing costs for translation.

BDT next argues that the district court abused its discretion in taxing all of the deposition expenses without any showing of necessity for use in the case. BDT also takes issue with the district court's taxing of charges beyond just the transcripts of the video depositions, including charges for video services, rough disk, interactive realtime, video tapes,

and the synchronization of the video and deposition transcripts.

Section 1920(2) provides for the taxation of fees of the "court reporter for all or any part of the stenographic transcript necessarily obtained for use in the case." Though the district court did not address the necessity requirement in the deposition context, it did address necessity with regard to copying costs and stated that BDT has "not offered any explanation of how these documents fall outside of the broad reach of necessity contemplated by § 1920(2) nor is the court convinced that the amount claimed is unreasonable." BDT argues that Lexmark's statements that the listed costs were "actually and necessarily performed" does not explain "why a particular deposition was taken, why the testimony was necessary, or why it was reasonably anticipated that the deposition would be used." BDT does not address which depositions fall outside the reach of necessity.[6] "[T]he party objecting to the clerk's taxation has the burden of persuading the court that it was improper." 10 C. Wright, A. Miller, and M. Kane, *Federal Practice and Procedure: Civil* 3d § 2679 (1998). The district court did not abuse its discretion in taxing the deposition expenses.

The district court cited *Tilton v. Capital Cities/ABC, Inc.*, 115 F.3d 1471 (10th Cir. 1997), for the proposition that videotape depositions are taxable under § 1920. *Tilton* held that it was proper to tax both the cost of videotaping and

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[6] BDT's omission of any precise objection to particular depositions in its effort to convince this court that the district court abused its discretion strongly suggests that BDT would have added nothing to its objections in the district court if it had been given another opportunity to object.

transcribing a deposition. 115 F.3d at 1477. Therefore, the costs beyond transcription are taxable under the rationale of *Tilton*, and the district court is affirmed.

Section 1920(4) allows for recovery of "[f]ees for exemplification and copies of papers necessarily obtained for use in the case." BDT alleges that the district court "taxed all of the costs requested even though the record is devoid of evidence that the copies were necessary for 'use' in the case" and "improperly placed the burden on BDT when it should have disallowed the copy expenses because Lexmark did not provide the information on which the court could apply section 1920(4)." BDT also argues that costs related to electronic scanning and imaging of documents should not have been taxed because recovery of those costs is not authorized by § 1920. The district court stated that "[t]he declarations accompanying [d]efendant's bill of costs establish that these costs 'were necessarily incurred in this case.'" Furthermore, electronic scanning and imaging could be interpreted as "exemplification and copies of papers." There was no abuse of discretion in taxing the copying costs; therefore, we affirm the district court.

As a final note the district court stated,

> Bearing in mind the voluminous record created, the number of witnesses necessarily deposed in this matter, the length of time that this matter was pending before this Court, and this Court's review of the supporting documents, it is the opinion of the Court that the costs submitted as taxable are hardly unreasonable.

This statement, along with the fact that the costs BDT objects to are covered by § 1920, demonstrates that the district court

was within its broad discretion in taxing costs. *See Wilkerson v. Johnson*, 699 F.2d 325, 330 (6th Cir. 1983).

III.

For the foregoing reasons, the judgment of the district court is affirmed.

DISSENT

ROGERS, Circuit Judge, dissenting.

I respectfully dissent. Making preliminary broad objections to the court award of costs should not preclude the opportunity to object to a clerk's proposed bill of costs, unless court procedures make clear that litigants will forfeit their procedural rights in that way.

It is true that the district court has discretion to award costs without action by the clerk, as the cases cited by the majority hold. But where exercise of that power effectively eliminates the chance to make a detailed objection to each element of the bill of costs, exercise of the power may amount to an abuse of discretion. The cases cited by the majority are not to the contrary. In *Deering, Milliken & Co. v. Temp-Resisto Corp.*, there was no question as to the correctness of the items or the amounts in the bill of costs sought to be taxed, and accordingly, the decision to bypass the clerk did not result in a loss of the opportunity to object to specific items. 169 F. Supp. 453, 454 (S.D.N.Y. 1959). In *Nelson v. Darragh Co.*, the district court denied a motion to quash a bill of costs, but the order reflects only that the court ordered the submission of an amended bill of costs. 120 F.R.D. 517, 520 (W.D. Ark. 1988). The cases cited in *Nelson* also do not appear to have involved a contention that the district court's

action bypassed the ability of the taxed party to object to elements of the bill of costs. *E.g.*, *Syracuse Broadcasting Corp. v. Newhouse*, 32 F.R.D. 29, 29 (N.D. N.Y. 1963), *aff'd*, 319 F.2d 683 (2d Cir. 1963) (parties agreed to bypass clerk).

The costs assessed in this case were very large, and in some categories they appear greater than warranted. While I agree that we should generally defer to the exercise of discretion by the district court, doing so would sit much more comfortably if the taxed party had clearly been given the chance to object as provided for in Fed. R. Civ. P. 54(d).

APPENDIX B

UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

No. 03-6293

[Filed February 11, 2005]

BDT PRODUCTS, INC.;	)
BURO-DATENTECHNIK	)
GMBH & COMPANY KG,	)
Plaintiffs-Appellants;	)
	)
v.	)
	)
LEXMARK INTERNATIONAL, INC.,	)
Defendant-Appellee.	)
	)

ON APPEAL FROM
THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF KENTUCKY

Before: MERRITT, GIBBONS, and ROGERS, Circuit Judges.

OPINION

JULIA SMITH GIBBONS, Circuit Judge. Appellants (collectively "BDT") are experts in the design and manufacture of paper handling systems and, as such, have solved difficult paper-handling challenges for the largest printer companies in the world. Appellants allegedly invented and perfected the technology which Lexmark used as part of the paper handling system of its Optra S printer. BDT alleges that Lexmark seeks to avoid paying for the use of appellants' trade secrets disclosed in confidence over a period of almost three years. Defendant-appellee sought summary judgment, which the district court granted on July 31, 2003. BDT appeals the district court's decision. For the reasons listed below, we affirm the district court's grant of summary judgment.

I.

We adopt the statement of facts and statement of the case contained in the district court's opinion. *BDT Prods. v. Lexmark Int'l*, 274 F. Supp. 2d 880, 881-85 (E.D. Ky. 2003).

BDT originally asserted nine causes of action,[1] each of which was premised on Lexmark's alleged misappropriation of BDT's purported trade secrets. On March 11, 2003, the district court issued a Memorandum Opinion and Order finding that Kentucky law applied and dismissing with prejudice BDT's second, fourth, and fifth causes of action. The district court addressed BDT's first and third causes of action. BDT's first cause of action alleged an implied-in-fact

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[1] The district court opinion states that BDT asserted only five causes of action. *BDT Prods.*, 274 F. Supp. 2d at 885.

contract arising from an alleged agreement reached at a trade show; BDT's third cause of action alleged trade secret misappropriation.

After the district court's ruling finding that Kentucky law applied to the case, Lexmark filed second and third motions for summary judgment. On July 31, 2003, in a consolidated Memorandum Opinion and Order, the district court granted Lexmark's motions thus disposing of BDT's remaining claims. BDT is now appealing the judgment of the district court regarding trade secret misappropriation.

II.

A district court's grant of summary judgment is reviewed *de novo*. *Little v. BP Exploration & Oil Co.*, 265 F.3d 357, 361 (6th Cir. 2001). The court must "view the evidence and draw all reasonable inferences therefrom in the light most favorable to the non-moving party." *Id.* Summary judgment is appropriate if "the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Fed. R. Civ. P. 56(c). If the moving party establishes an absence of evidence in support of nonmoving party's case, the "nonmoving party has the burden of coming forward with evidence raising a triable issue of fact." *McKay v. Toyota Motor Mfg.*, 878 F. Supp. 1012, 1013 (E.D. Ky. 1995). "To sustain this burden, she may not rest on the mere allegations of her pleadings. Instead, she must set forth specific facts showing that there is a genuine issue for trial." *Id.; see also Celotex Corp. v. Catrett*, 477 U.S. 317, 324, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986) (stating that the nonmoving party is required to go beyond the pleadings to designate "specific facts showing that there is a

genuine issue for trial"). "In other words, the movant [can] challenge the opposing party to 'put up or shut up' on a critical issue." *Street v. J.C. Bradford & Co.*, 886 F.2d 1472, 1478 (6th Cir. 1989).

A.

As the district court noted, "[i]n order to prevail on a breach of the Uniform Trade Secrets Act ['UTSA'] claim, Plaintiffs must present evidence which satisfies a two prong inquiry. First, they must present evidence which indicates that the information they seek to protect qualifies as a protectable trade secret." *In re Dippin' Dots Patent Litig.*, 249 F. Supp. 2d 1346, 1375 (N.D. Ga. 2003) (citing *Auto Channel, Inc. v. Speedvision Network, LLC*, 144 F. Supp. 2d 784, 794 (W.D. Ky. 2001)). "To show the information is entitled to protection, Plaintiffs must put forward evidence demonstrating that the information (1) has independent economic value, (2) is not readily ascertainable by proper means, and (3) was the subject of reasonable efforts to maintain its secrecy." *Id.* (citing Ky. Rev. Stat. Ann. § 365.880). Lexmark challenges BDT's efforts to maintain secrecy.

BDT argues that implied confidential relationships existed between itself and Hewlett Packard and Tektronix respectively and that the inquiry into whether BDT took reasonable steps to protect its trade secrets depends on the confidential nature of its relationships with Hewlett Packard and Tektronix. BDT's position is that its collaborative relationships with other companies for the purpose of designing and implementing new products are inherently confidential. BDT alleges that because this is an industry-wide understanding, Lexmark knew that BDT's disclosures of its technology were confidential, and that the dealings with

Hewlett Packard and Tektronix were likewise confidential. BDT further argues that its position is bolstered by Hewlett Packard's and Tektronix's agreement that BDT's disclosures were protected by confidential relationships.

In arguing that the district court erred in granting summary judgment, BDT states "[t]he district court overlooked the critical fact that both Hewlett Packard and Tektronix agreed that they were in a confidential relationship with BDT and both companies treated all of BDT's information as confidential. These relationships alone were sufficient to protect BDT's trade secrets." BDT further argues that the district court overlooked the Development and Purchase Agreements between BDT and Hewlett Packard as well as the Development Agreement with Tektronix. Contrary to BDT's argument, however, these documents, even when read in the light most favorable to BDT, clearly demonstrate that the agreements were one-way and did not require these companies to keep BDT's information confidential. Because the language of the agreements is clear, the understanding of the companies is irrelevant.

BDT next argues that the district court erred in finding that an implied duty arising from a confidential relationship was insufficient to protect trade secrets where the UTSA governs. BDT unsuccessfully attempts to distinguish *Dippin' Dots* and *Rogers v. Desa Int'l, Inc.*, 183 F. Supp. 2d 955 (E.D. Mich. 2002). In *Dippin' Dots*, the founder of a flash frozen novelty ice cream company served samples of his product at a company picnic, to officials of a retail development who were potential investors, to a fast food chain, and to a dessert company. 249 F. Supp. 2d at 1353-54. There were no confidentiality agreements involved. *Id.* The court in *Dippin' Dots* held that after having made these unprotected disclosures, the novelty ice cream maker could

not claim that his putative trade secret was misappropriated. *Id.* at 1375-76. BDT argues that *Dippin' Dots* is distinguishable from the present case "because BDT disclosed its trade secrets in the course of a confidential relationship[] which the recipients – Hewlett Packard and Tektronix – recognized and respected, and the inventor in *Dippin' Dots* disclosed his trade secrets to individuals with whom he had no existing relationship, confidential or otherwise."

In *Rogers*, the plaintiff invented and patented a tree trimming device, which he sent to the defendant prior to patenting to determine if the defendant was interested in producing the invention. 183 F. Supp. 2d at 955. The defendant told the plaintiff it was not interested in producing his invention, but subsequently began producing and marketing a very similar tree trimming device. *Id.* The district court held that there was no trade secret under Kentucky law. *Id.* at 956-58. Again, BDT attempts to distinguish this case based on the plaintiff's unsolicited disclosure of the invention to the defendant, with whom there was no existing business relationship.

Dippin' Dots and *Rogers* do differ from the instant case because no confidentiality agreements existed in *Dippin' Dots* and *Rogers*. BDT correctly argues that the definition of trade secrets in the Uniform Act "nowhere requires a written agreement as a prerequisite to preservation of a trade secret" and that there must be "express or implied consent" in order to lawfully disclose a trade secret. (citing Ky. Rev. Stat. Ann. § 365.880(2)(b)). What BDT fails to note is that this is not a situation in which there are no written agreements and, where written agreements do exist, the terms of the agreement may

expressly or impliedly grant consent to disclose.[2] This same reasoning applies to BDT's argument that disclosures in a confidential relationship are protected even in the absence of a written agreement. The argument does not apply in the instant case because there were clear written agreements which protected Hewlett Packard and Tektronix but did not protect BDT. As Lexmark points out:

> [i]t is well established that court will not recognize implied obligations that are contrary to terms of a party's written confidentiality agreement. "Although a confidential relationship may be implied in a proper case, where there is an express agreement between the parties covering the subject matter, the law will not create another by inference."

(quoting *Ferroline Corp. v. Gen. Aniline & Film Corp.*, 207 F.2d 912, 922 (7th Cir. 1953)).

The district court ruled that the information at issue did not constitute a legally cognizable trade secret:

> BDT disclosed the entirety of the alleged trade secrets to Hewlett Packard and Tektronix from 1993 through May 1994 without securing protection for these disclosures, and the BDT System lost any trade secret protection it may have had at that time. Yet . . . BDT

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[2] "It should be kept in mind that where the parties have expressly contracted with respect to their relationship and have not provided for confidential disclosure or restrictions based on any confidential duty, the courts are not apt to imply the existence of such a relationship or such restrictions." 1 Roger Milgrim, *Milgrim on Trade Secrets* § 3.03 (2003) (citing *J.C. Kinley Co. v. Haynie Wire Line Serv., Inc.*, 705 S.W.2d 193, 196-97 (Tex. App. 1985)).

> did not disclose to Lexmark several of the components required to constitute the BDT System combination trade secret until August 1994 and February 1995. Thus, the BDT system ceased to be a trade secret even before BDT fully disclosed it to Lexmark.

BDT Prods., 274 F. Supp. 2d at 890-91. The district court correctly held that, because BDT did not take reasonable steps to maintain the secrecy of its alleged trade secrets, its misappropriation claim failed. The reasoning behind this holding was that once a trade secret is disclosed to "others who are under no obligation to protect the confidentiality of the information, or [the information is] otherwise publicly disclosed . . ., [the] property right is extinguished." *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1002, 104 S. Ct. 2862, 81 L. Ed. 2d 815 (1984).

The district court correctly found that "BDT disclosed all of its purported trade secrets embodied in its BDT System to both Hewlett Packard and Tektronix under one-way' confidentiality agreements that only protected the confidences of Hewlett Packard and Tektronix, respectively, not those held by BDT. Those agreements did not obligate either Hewlett Packard or Tektronix to keep confidential any information that BDT disclosed." *BDT Prods.*, 274 F. Supp. 2d at 891. The district court further stated that "([e]ntering into an agreement, but placing few or no restrictions on the uses a third party can make of a trade secret, is [a] sure path to waiver." *Id. See, e.g., Contracts Materials Processing, Inc. v. Kataleuna GmbH Catalysts*, 164 F. Supp. 2d 520, 534 (D. Md. 2001) (plaintiffs entered into agreement that placed no restrictions on the uses defendants could make of alleged trade secrets). Thus, the district court concluded that "any proprietary interest BDT might have had in the BDT [s]ystem or the other related trade secrets was extinguished when BDT

revealed its trade secrets to third parties without requiring those parties to keep that information a secret." *BDT Prods.*, 274 F. Supp. 2d at 891. This conclusion was correct, and we affirm the district court's finding that no trade secrets existed in this case.

Lexmark argues that an alternative ground supporting the finding that there were no trade secrets is the commercial distribution of Hewlett Packard's HP4v printer which began before BDT disclosed all of the elements of the BDT system to Lexmark. BDT's technical expert stated during his deposition that "all of the [BDT tray] secrets were involved in the 4v tray."[3] Thus, the alleged trade secrets were ascertainable by proper means by the time the Optra S was released. *See Dippin' Dots*, 249 F. Supp. 2d at 1375.

B.

The second prong that plaintiffs must satisfy in order to prevail on a breach of KUTSA claim is misappropriation. It is not enough for plaintiffs to show that the information is entitled to protection, "[r]ather, [p]laintiffs must also show that the protected information has been misappropriated." *BDTProds.*, 274 F. Supp. 2d at 890. "To prove misappropriation, [p]laintiffs must show that the trade secret was acquired by improper means, was disclosed improperly,

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[3] BDT's technical expert later stated in his declaration opposing summary judgment that he "understood the question and answer quoted by Lexmark from my deposition to relate to the trade secrets in the product design, not the other trade secrets that were disclosed. The release of the HP 4v . . . did not reveal all of the trade secrets which were disclosed in confidence to Lexmark."

or was used by someone without proper consent." *Dippin' Dots*, 249 F. Supp. 2d at 1375 (citing Ky. Rev. Stat. Ann. § 365.880).

BDT alleges that "the written agreements between BDT and Lexmark did not apply to the trade secrets at issue in this case" and that the agreements applied only to BDT Products and not to BDT Buro. As the district court found, this argument fails because those agreements clearly bound both plaintiffs. Also, as the district court points out, "[p]laintiffs' [a]nswer to Lexmark's counterclaim admitted that both [p]laintiffs were parties to those agreements." *BDT Prods.*, 274 F. Supp. 2d at 898.

BDT further argues that "the agreements applied to disclosures in connection with other existing or anticipated transactions, principally, Lexmark's manufacture and sale of its printers to BDT as part of the ongoing [original equipment manufacturer or OEM] relationship" and not to BDT's paper input technology. BDT concedes that the disclosures in the OEM relationship and BDT's paper-input technology overlapped chronologically, but nevertheless maintains that they were "entirely distinct business relationships which were governed by different agreements and understandings." BDT attempts to bolster its argument by stating that Lexmark employees who received the confidential information understood that the information was not to be shared. As appellee points out, however, courts have found that the personal practices of lower-level employees cannot establish an implied confidential relationship on behalf of an employer. *See Southwest Whey, Inc. v. Nutrition 101, Inc.*, 117 F. Supp. 2d 770, 780 (C.D. Ill. 2000) (holding that, where plaintiff did nothing to require joint venturers to keep trade secret information confidential, "[t]he fact that [the] secrets may not have been revealed . . . [does not constitute] a reasonable

effort to maintain the secret"); *Auto Channel*, 144 F. Supp. 2d at 796 (holding that, where plaintiff did not obtain an enforceable nondisclosure agreement, a confidentiality obligation could not be established based on "assurances that [defendant] would not use the information for any other purposes").

The district court held that, even assuming the information was a trade secret under KUTSA, the multiple confidentiality agreements between BDT and Lexmark permitting unrestricted use of information BDT imparted to Lexmark negated any alleged misappropriation. *BDT Prods.*, 274 F. Supp. 2d at 893. The district court was correct in its conclusion that the many agreements between BDT and Lexmark concerning confidential information expressly permitted Lexmark to use any information provided by BDT and thus provided "express or implied consent." *Id.* at 893-94. All seven agreements entered into by BDT and Lexmark between 1990 and 1996 expressly provided that Lexmark was free to use any information disclosed by BDT, even if BDT designated the information as confidential.[4] Therefore, Lexmark had a reasonable understanding that it was free to use any and all information disclosed by BDT.

C.

While conceding that Kentucky law applies to most issues in the case, BDT argues that "Kentucky law simply did not apply to the disclosures between BDT, Hewlett Packard or Tektronix [] which occurred in other jurisdictions." As

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[4] Because the agreements exist, there is no need to determine whether BDT is bound by its position taken in a superseded verified complaint that the agreements apply.

Lexmark points out, however, "BDT did not provide the [d]istrict [c]ourt with any contrary relevant law" from California, Oregon, or Germany.

BDT's arguments with respect to California and Oregon law fail. California law does recognize implied-in-fact contracts. *Gunther-Wahl Prod., Inc. v. Mattel, Inc.*, 104 Cal. App. 4th 27, 128 Cal. Rptr. 2d 50 (Cal. Ct. App. 2003). However, "[n]o implied condition can be inserted as against the express terms of [a] contract or to supply a covenant upon which it was intentionally silent." *Taylor v. National Supply Co.*, 12 Cal. App. 2d 557, 563, 56 P.2d 263 (Cal. Dist. Ct. App. 1936); *see also Tanner v. Title Ins. & Trust Co.*, 20 Cal. 2d 814, 824, 129 P.2d 383 (Cal. 1942). Under Oregon law, though it recognizes implied duties of confidentiality under its version of the UTSA, implied duties are voided by express agreements on the same duty. *Union Pac. R.R. Co. v. Mower*, 219 F.3d 1069, 1074-75 (9th Cir. 2000). Even if California and Oregon law applied, the result would be the same.

Before the district court, BDT did not brief the applicability of German law in connection with Lexmark's summary judgment motions, and the court deemed the argument abandoned.[5] Here, BDT does not cite any specific German statutes or case authorities in its brief and fails to state to what issue or issues German law applies. Nor does BDT explain how German law would dictate a contrary result. The only reference in the record to any specific provisions of German law is the declaration of BDT's expert witness, which cited two sections of the German Code

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[5] The district court's actual language is that "the issue is moot."

Against Unfair Competition. BDT simply does not adequately pursue its argument that German law applies. *See* Fed. R. App. P. 28(a)(9) (party must raise contentions and reasons for them with citations to authority, citations to the record, and statement of the applicable standard of review in the argument section of the brief).

Therefore, there is no merit to BDT's argument that the laws of Germany, California, and Oregon should be applied to certain issues in the case.

III.

For the foregoing reasons, the judgment of the district court is affirmed.

MERRITT, Circuit Judge, concurring. I would rest the affirmance of this case on the single ground that when Lexmark introduced the tray in question in 1997, whatever trade secret may have existed had already become public information. Hewlett Packard had introduced the same tray, as "HP4V," to the public in late 1994, more than two years earlier. The earlier manufacture and release of the "trade secret" by HP means that the information was now public information. All of the documents of BDT's secret could easily be understood from the HP4V tray, including the Teflon-coated guides.

Thus, I would rest our decision altogether on the "alternative ground" discussed by the Court in the last paragraph of Section II. A. of the opinion. Had the trade secret not already been revealed to the public in the "HP4V" tray long before the Lexmark tray came on the market, I would have some doubts about the proper outcome in this

case, and I would be reluctant to dispose of the case on summary judgment.

I agree with the Court that trade secret law should not be interpreted as requiring a written agreement in which Lexmark promised to maintain the confidentiality of BDT's technology. In *Learning Curve Toys, Inc. v. Playwood Toys, Inc.*, 342 F.3d 714, 726 (7th Cir. 2003), a case in which a designer sued a toy manufacturer, the Court reviewed trade secret cases and concluded that confidentiality may be implied from the circumstances and the conduct of the parties without a written agreement protecting the designer.

The fact that here there were written contracts expressly giving Lexmark confidentiality protection, but not BDT, certainly weakens BDT's claims, as the Court concludes. But a reasonable jury might still find that BDT's claimed trade secrets were protected by the inherently confidential relationships between the designer, BDT, and its clients, Lexmark, Hewlett Packard and Tektronix. Officials from Hewlett Packard and Tektronix gave depositions in which they testified that officials of those clients considered similar BDT design information confidential in the absence of a written agreement.

Nevertheless, in my judgment, once Hewlett Packard made its tray public, the trade secrets in question entered the public domain, and BDT no longer has a plausible argument that its trade secrets revealed earlier to Hewlett Packard, Tektronix and Lexmark – perhaps in secret at that time – remained undisclosed to the public. Summary judgment was justified on this basis.

APPENDIX C

UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

No. 03-6293

[Filed April 25, 2005]

BDT PRODUCTS, INC., ET AL.,)
Plaintiffs-Appellants,)
)
v.)
)
LEXMARK INTERNATIONAL, INC.,)
Defendant-Appellee.)
)

Before: MERRITT, GIBBONS, and ROGERS, Circuit Judges.

ORDER

The court having received a petition for rehearing en banc, and the petition having been circulated not only to the original panel members but also to all other active judges of this court, and no judge of this court having requested a vote on the suggestion for rehearing en banc, the petition for rehearing has been referred to the original panel.

The panel has further reviewed the petition for rehearing and concludes that the issues raised in the petition were fully considered upon the original submission and decision of the case. Accordingly, the petition is denied.

ENTERED BY ORDER OF THE COURT

/s/_____

Leonard Green, Clerk

APPENDIX D

UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF KENTUCKY
LEXINGTON DIVISION

CIVIL ACTION NO. 99-61-JMH

[Filed July 31, 2003]

BDT PRODUCTS, INC. ET AL.,	)
PLAINTIFFS,	)
	)
v.	)
	)
LEXMARK INTERNATIONAL, INC. ET AL.,	)
DEFENDANTS.	)
	)

Joseph M. Hood, District Judge

MEMORANDUM OPINION AND ORDER

This matter is before the Court on Defendant Lexmark International, Inc.'s ("Lexmark's") motions for summary judgment [Record Nos. 304 & 305]. Fully briefed, Defendant's motions are ripe for review.

I. RELEVANT FACTUAL AND PROCEDURAL BACKGROUND

The following are the relevant facts, viewed - as they must - in the light most favorable to plaintiff.

Plaintiffs (collectively "BDT") are experts in the design and manufacture of paper handling systems and, as such, have solved difficult paper-handling challenges for the largest printer companies in the world. Plaintiffs allegedly invented and perfected the technology which Lexmark used as part of the paper handling system of its Optra S printer. In this case BDT alleges that Lexmark seeks to avoid paying for the use of Plaintiffs' trade secrets disclosed in confidence over a period of almost three years.

In May 1997, Lexmark announced the introduction of its Optra S line of printers, which included a standard 250-sheet paper tray. This design was a substantial departure from Lexmark's existing paper handling system. Previously, Lexmark had used a lift-plate system, which incorporated a spring attached to the metal plate, which raised the paper to printer input. The system separated the paper with a metal corner-separator which caused each individual sheet to snap away from the stack. The new system, which Lexmark used for the first time in the Optra S, did not use a lift plate or a corner-separator. In their place, the Optra S separated the paper with an arm which dropped down into the tray and moved the paper forward against an angled dam, which then directed the paper from the top of the stack to the printer. In the place of a corner-separator, the individual sheets of paper were separated from the stack by the forward force applied by the arm to the top sheet. This design eliminated the need for springs, lift plates, or corner separators and allowed the tray to be made without any moving parts.

Lexmark's engineers described the Optra S paper handling system as a "fundamentally significant change" over the former design, and its marketing department described the new system as a "dramatic improvement." Lexmark not only touted the new technology as revolutionary, it also claimed that the new trays were "Even More Reliable Than Ever." Visually, however, Lexmark's "revolutionary" tray was nearly identical to the tray that Plaintiffs designed and built for Hewlett Packard.

Over the years, the parties interacted closely. While a detailed description of the extensive interaction between the parties would be laborious, an overview is needed to place their cooperation and agreements in proper context.

Plaintiffs' technical disclosures concerning the angled-dam tray started in March 1993 in Germany in a confidential demonstration of Plaintiffs' prototype and ended in early 1996, when Lexmark informed Plaintiffs that Lexmark was no longer interested in receiving information from Plaintiffs on this technology. During this period, which spanned almost three years, Plaintiffs disclosed its technology, and Lexmark - whether based on Plaintiffs' disclosures or its own development - decided to abandon its existing design and use an angled-dam tray for the Optra S. Plaintiffs made their disclosures because they believed that Lexmark would purchase products which incorporated Plaintiffs' technology in Lexmark printers, just as Plaintiffs had designed and manufactured paper handling systems for other companies, such as Hewlett Packard. Lexmark's employees admit these disclosures were confidential and were treated as such.

Lexmark asked for, and received, far more than simply a demonstration of the prototypes. As a result, Plaintiffs eventually provided: details about the technology, an appraisal

of the technology's commercial feasibility in application, test results, prototypes, unannounced product materials, detailed explanations of the theory of operation, and a technical explanation of how to control multiple input and output sources.

Seeing the technology and making it work reliably were two different things, however, and Lexmark, new to this design, continued to seek help from Plaintiffs well into 1995, (over a year after Lexmark decided to implement the design). Although Lexmark claims that its own engineers invented a paper separation arm, which it dubbed the "autocompensator," and incorporated that arm to the angled-dam tray, Plaintiffs allege that Defendant's new technology was based on Plaintiffs trade secrets. To put it simply, Lexmark claims that its engineers worked their way, on their own, to this design; BDT, however, argues that "both the direct and the circumstantial evidence leads to the conclusion that Lexmark used Plaintiffs' information to adopt and implement the angled-tray design for the Optra S printer." This question is at the core of the instant litigation.

Critical to the Court's disposition of this case are the series of agreements executed between the parties between 1990 and 1996. During this period, Lexmark and BDT executed seven confidentiality agreements concerning the disclosure of information. While certain provisions differ somewhat from agreement to agreement, at least one recurs - each agreement expressly provided that Lexmark was free to use information provided to Lexmark by BDT.

The parties entered into four agreements labeled as "Confidential Disclosure Agreement(s)." These agreements were labeled as "disclosure" agreements because only one party, Lexmark, received protection with regard to disclosed

information. All four of those agreements expressly provided in section 9 that Lexmark could freely use any information, confidential or otherwise, that BDT disclosed to Lexmark. Section 9 reads:

> 9. In connection with this agreement, Lexmark does not wish to receive any information which may be considered confidential or proprietary by CONTRACTOR [defined earlier as "BDT"]. Accordingly, except with respect to the rights of CONTRACTOR under valid patents and copyrights, no obligation of any kind is assumed by or is to be implied against Lexmark by virtue of Lexmark's discussions with CONTRACTOR or with respect to any information received (in whatever form) from CONTRACTOR and Lexmark will be free to reproduce, use and disclose such information to others without limitation. Moreover, discussions and/or correspondence, or other activities under this agreement shall not in any respect, impair the right of Lexmark to make, procure, or market products or services now or in the future which may be competitive with those offered by CONTRACTOR. The above terms control over any language that may be contained in any sign-in or visitor's log at CONTRACTOR'S facility.

The parties also entered into three additional agreements, entitled "Confidential Exchange Agreement(s)." These were two-way confidentiality agreements in which both sides would be exchanging confidential information. Two of these agreements contained an express disclaimer in section 3 providing that despite a general obligation not to disclose confidential information, both parties were free to use any

confidential information disclosed under the agreement by the other party:

> 3. Except with respect to rights under valid patents and copyrights, Recipient shall be free to use any such Confidential Information provided by Discloser subject only to the obligation not to disclose, publish or disseminate such Confidential Information during the foregoing specified period of confidentiality.

Likewise, the last Confidential Exchange Agreement contained a similar provision:

> Except with respect to rights under valid patents, the receiving party shall be free to use any such Confidential Information provided by the disclosing party, any reports and written documentation prepared by the receiving party, and any ideas, concepts and/or techniques contained in any such Confidential Information for any purpose including the use of such Information in the development, manufacture, marketing and maintenance of its products and services, subject only to the obligation not to disclose, publish or disseminate such Confidential Information during such foregoing specified period of confidentiality.

In 1993 and 1994, BDT disclosed its alleged trade secrets to two competitors of Lexmark, Hewlett Packard Guadalajara and a division of Xerox then known as Tektronix, Inc. BDT freely disclosed its alleged trade secrets to both of these two Lexmark competitors under agreements that failed to impose any obligation of confidentiality regarding, or restriction on the use of, BDT's information. In particular, BDT did not in writing obligate either Hewlett Packard or Tektronix to keep BDT's information secret. In fact, BDT did not take any steps (such as confidentiality agreements prohibiting these entities

from disclosing or using BDT's confidential information) whatsoever to protect its purported trade secrets.

On or about September 1993, after months of discussions concerning the BDT System, BDT began to develop an auxiliary tray that ultimately became the 500-sheet auxiliary tray for Hewlett Packard's "HP4v" printer, which Hewlett Packard revealed and released to the public in 1994. The HP4v tray was the first commercial tray to embody every component of the BDT System that is at issue in this case. According to Mr. Friedhelm Steinhilber, who is the Geshattfurher of Plaintiff BuroDatentechnik GmbH & Co. KG (akin to a chief executive officer), BDT "perfected the BDT System" during its development of the HP4v tray.

Hewlett Packard Guadalajara and BDT signed an agreement to govern the exchange of information for the HP4v tray project on October 7, 1993, effective July 6, 1993 ("July 6 CDA"). The July 6 CDA was a one-way confidential disclosure agreement - it protected the confidences of Hewlett Packard only, and not those of BDT.

During the same 1993-94 timeframe, BDT was also disclosing the BDT System to Tektronix, later to become a subsidiary of Xerox. On or about October 1993, after months of discussions concerning the BDT System, BDT made a formal proposal to develop auxiliary trays for the Tektronix Phaser 340 color printer ("Tektronix tray"). The Tektronix tray displayed and embodied the very same BDT System.

BDT and Tektronix executed two separate agreements to govern the disclosure of confidential information during the Tektronix tray project. On July 13, 1993, BDT and Tektronix executed a Confidential Information Agreement on the subject of "paper feeders and trays" that governed disclosures made

during development of the Tektronix tray. As with the HP4v tray project, the confidentiality agreement between BDT and Tektronix was a "one-way" confidentiality agreement specifically drafted to protect only Tektronix information and not BDT information.

On February 4, 1994, BDT and Tektronix also executed the development contract for the Tektronix tray ("Tektronix Development Agreement"). The Tektronix Development Agreement also contained a confidentiality provision and provided that BDT would protect Tektronix's information, but did not obligate Tektronix to protect any information disclosed by BDT.

As with the HP4v project, BDT disclosed information to Tektronix in developing the Tektronix tray. BDT sent the first prototype of the Tektronix tray to Tektronix prior to February 7, 1994. The prototype Tektronix trays embodied the BDT system, and during the development phase of the Tektronix tray, Tektronix thoroughly examined the design of the BDT System trays provided by BDT to ensure that the design worked.

BDT originally asserted five causes of action, each of which was premised on Lexmark's alleged misappropriation of BDT's purported trade secrets. On March 11, 2003, the Court issued a Memorandum Opinion and Order finding that Kentucky law applied and dismissing with prejudice BDT's second, fourth, and fifth causes of action.[1] Thus, only

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[1] Plaintiffs filed a Motion for Reconsideration [Record No. 301] of the Court's Order granting Defendant summary judgment on Plaintiffs' second, fourth, and fifth causes of action. In their motion, however, Plaintiffs requested that the Court defer its ruling

Plaintiffs' first and third causes of action remain. BDT's first cause of action alleges an implied-in-fact contract arising from an alleged agreement reached at a trade show;[2] BDT's third cause of action alleges trade secret misappropriation.

II. SUMMARY JUDGMENT STANDARD

Under Federal Rule of Civil Procedure 56(c), summary judgment is proper only "if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." Fed. R. Civ. Pro. 56(c); *see also Celotex Corp. v. Catrett*, 477 U.S. 317, 322, 106 S. Ct. 2548, 91 L. Ed. 2d 265 (1986); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 247-48, 106 S. Ct. 2505, 91 L. Ed. 2d 202 (1986). In reviewing a motion for summary judgment, "this Court must determine whether 'the evidence presents a sufficient disagreement to require submission to a jury or whether it is so one-sided that one party must prevail as a matter of law.'" *Patton v. Bearden*, 8 F.3d 343, 346 (6th Cir. 1993) (quoting *Anderson v. Liberty Lobby, Inc.*, 477

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on the applicability of German law to the alleged trade-show disclosure until the Court has ruled on the instant motions for summary judgment. (It was suggested that the two could be intertwined.) The matter of the potential applicability of German law having not been raised in the parties' briefings, however, the issue is moot.v

[2] Considerable confusion has arisen respecting just what Plaintiffs' are alleging in their first cause of action. Plaintiffs' amended complaint seems to say one thing, while Plaintiffs' briefs suggest something else. The Court defers to the pleadings. *See* discussion, *infra* Part III.A.

U.S. at 251-52). Furthermore, the evidence and all facts must be viewed in the light most favorable to the nonmoving party. *Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.*, 475 U.S. 574, 587, 106 S. Ct. 1348, 89 L. Ed. 2d 538 (1986).

III. DISCUSSION

A. PLAINTIFFS' FIRST CAUSE OF ACTION[3]

In support of its First Cause of Action, BDT alleges that it invested substantial resources in research and design on behalf of Lexmark and disclosed its purported trade secrets and know-how to Lexmark "with a reasonable expectation" that "Lexmark would not use or develop BDT's technology without the consent and approval of BDT and that Lexmark would conclude a joint development and manufacturing agreement with BDT." BDT acknowledges that "Lexmark did not sign such a written agreement." BDT nevertheless claims that Lexmark breached a contract implied-in-fact to compensate BDT for its purported trade secrets with the understanding that BDT would be compensated if its technology were incorporated into Lexmark's products. BDT contends that it suffered a "loss of profits from the anticipated agreements with Lexmark."

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[3] The Court recognizes that a good deal of confusion has arisen on account of Plaintiffs' statement in its opposition to Defendant's motion for summary judgment that "Plaintiffs are not suing to enforce the agreement itself, but have relied on the agreement only to confirm [that] the disclosures of Plaintiffs technology were understood to be confidential ...." Whatever is meant by this statement, the Court defers to the pleadings, which are captioned "Breach of Contract (Implied-in-Fact)." Hence the following contractual analysis.

Plaintiffs' claim must fail, however. A contract implied-in-fact is not an "anticipated" contract but rather a true contract that "requires an actual agreement or meeting of the minds although not expressed." *Kellum v. Browning's Adm'r,* 231 Ky. 308, 21 S.W.2d 459, 466 (Ky. 1929); *see also Oliver v. Gardner,* 192 Ky. 89, 232 S.W. 418, 420 (Ky. 1921) (holding that proof must show "that both the party rendering the service and the one receiving it expected and understood that compensation would be made")(citation omitted). A contract implied-in-fact differs from an express contract only "in the character and quantum of proof necessary to establish them." *Kellum,* 21 S.W.2d at 463. Specifically:

> An express contract is one wherein all the terms and conditions between the parties are set forth while in an implied contract some one or more of the terms or conditions are implied from the conduct of the parties. The former speaks for itself, while a contract implied in fact is one inferred from the circumstances or acts of the parties.

Dorton v. Ashland Oil & Refining Co., 303 Ky. 279, 281, 197 S.W.2d 274 (Ky. 1946). *See also, e.g., Perkins v. Daugherty,* 722 S.W.2d 907, 909 (Ky. App. 1987)(holding that a contract implied-in-fact is "shown by evidence of facts and circumstances from which a meeting of minds concerning the mutual promises may be reasonably deduced")(citing *Thompson v. Hunter's Ex'r,* 269 S.W.2d 266 (Ky. 1954)).

Because parties do not expressly agree to the terms of an implied contract, the "circumstances must be sufficient to clearly and convincingly manifest or prove a mutual assent of minds to enter into the contract sought to be implied or established." *Kellum,* 21 S.W.2d at 463. As stated by

Kentucky's highest court, to establish the existence of a contract implied-in-fact, plaintiff must meet a higher standard:

> [An implied-in-fact contract] requires stricter proof ... than to establish ordinary contracts - more than proof of performance of the services and casual, indefinite expressions of an intention to pay for same, or acknowledgement of gratitude or dependence on the part of the recipient, or expressions of a wish or desire that the server or attendant should be compensated, for cases of this character are pregnant with danger of spoliation.

Id. at 464.

And while an implied-in-fact contract may be established by circumstantial evidence, such evidence nonetheless "must establish the essential elements of a contract." *Veluzat v. Janes,* 462 S.W.2d 194, 196 (Ky. 1970) (emphasis in original). As explained by the court in *Veluzat:*

> There must be at least some semblance of definiteness as to what services were to be rendered, when they were to begin and how long they were to last, and what was promised in recompense for the services. As said in *Finn v. Finn's Adm'r, Ky.,* 244 S.W.2d 435, "It must be clear and certain that there was in fact an agreement, positively definite and mutually understood." The evidence must disclose on the part of the promisor an intent to assume a legal obligation capable of being enforced against him. *Oliver v. Gardner,* 192 Ky. 89, 232 S.W. 418. The evidence

> further must establish that the person rendering the services expected compensation for the services. *Marshall v. Ireland,* 228 Ky. 354, 15 S.W.2d 289.

Id. at 196-97.

Moreover, the parties must agree "on all material and essential terms and leave nothing to be agreed upon as a result of future negotiations." *Walker v. Keith,* 382 S.W.2d 198, 201 (Ky. 1964)(quoting *Johnson v. Lowry,* 270 S.W.2d 943, 946 (Ky. 1954)); *see also Computer Consulting & Network Design, Inc. v. International Business Machines Corp.,* 184 F. Supp.2d 618, 621 (W.D. Ky. 2002). As the United States Court of Appeals for the Sixth Circuit has explained:

> If there was in fact any essential part of the contract upon which the minds of the parties had not met, or upon which there was not an agreement, even though the negotiations evidence a complete willingness, or even an announced determination, to agree in the future upon such issues as might subsequently arise, it must still follow that a valid and binding contract was not made.

National Bank of Kentucky v. Louisville Trust Co., 67 F.2d 97, 102 (6th Cir. 1933)(applying Kentucky law).

In the present case, the circumstances and the acts of the parties reveal that there was never any meeting of the minds concerning a development or manufacturing contract. Rather, the evidence is that preliminary negotiations over a possible contract or contracts occurred. As BDT's pleadings themselves acknowledge by the plea for damages relating to the "anticipated agreements with Lexmark," and as BDT's own subsequent testimony establishes, the parties never reached an agreement on essential and material terms.

Therefore, no contract - express or implied - was ever formed.

BDT's principal, Mr. Klein, testified that the parties started discussing the possibility of entering into a development agreement in early 1994. By February 1995, discussions were focused on the possibility that BDT would develop a high-capacity output device for Lexmark's Optra L printer, which contained a Canon P550 printer engine, and high-capacity input and output devices for Lexmark's Optra R printer. The parties also generally discussed a possible development agreement for input and output devices for a future line of printers that would ultimately become known as the Optra S family of printers.

In late March or early April of 1995, BDT sent Lexmark a draft development agreement to begin the process of negotiating the terms and conditions of the possible contract. In fact, Mr. Klein admitted that although BDT expected to enter into an agreement with Lexmark, BDT understood that the parties had not yet reached an agreement at this point.

In an effort to win Lexmark's business, BDT also supplied Lexmark with two prototypes of an output device for possible use with a Lexmark printer. Mr. Steinhilber conceded that BDT did this at its own expense, for the purpose of marketing their products to Lexmark. Mr. Steinhilber further conceded that BDT understood that it would not recoup the cost of developing these prototypes unless and until BDT and Lexmark entered into an agreement. *Id.*

Over the course of the next several months, the parties continued to negotiate the terms and conditions of possible contracts. By June 1995, the parties had expanded the scope of their negotiations to include not only BDT development

efforts but also the possibility that BDT would manufacture and sell devices to Lexmark. The parties exchanged incomplete draft contracts during the negotiations, but never reached an agreement on the terms and conditions thereof. As Mr. Klein acknowledged, "there was not an agreement yet."

The parties suspended negotiations in early July 1995. Mr. Klein testified that as of the time of this suspension of negotiations in July 1995, he "had an extremely high level of confidence" that the parties eventually would reach an agreement respecting the various products that were being discussed at the time. Confidence that an agreement may be reached in the future, however, is not tantamount to reaching an agreement. *See Auto Channel, Inc. v. Speedvision Network, LLC,* 144 F. Supp.2d 784, 790 (W.D. Ky. 2001). As Mr. Klein admitted, at this point "there was not a finalized - a finalized agreement, but [BDT] continued to go on as if there would be."

The parties resumed negotiations in mid-August and continued to exchange draft proposals. In September 1995, Mr. Klein, along with Doug Bass, traveled to Lexington, Kentucky to meet with Ben Streepey and Eric Sonday of Lexmark to discuss potential projects. As of that meeting, the parties were still in negotiations and BDT understood that no agreement had been reached.

At the September meeting, Mr. Klein informed Mr. Streepey that BDT could not develop a high-capacity output mailbox for the Optra L printer (Canon P550 engine) within the time requested by Lexmark because of BDT's pre-existing commitments to Lexmark's chief competitor, Hewlett-Packard. Lexmark did not find this satisfactory. Mr. Klein testified that after this meeting, BDT had "zero" expectation of "entering into a contract for the high-capacity output

device for the P550," but still thought that BDT had "a good chance of winning" a contract to develop input and output devices for the Optra R. Shortly thereafter, Mr. Sonday telephoned Mr. Klein and informed him that Lexmark was terminating all negotiations with BDT.

Doug Bass, BDT's account manager for Lexmark at the time, confirmed that negotiations between Lexmark and BDT were terminated before the parties reached an agreement:

> Q. If a development and manufacturing agreement had been entered into between BDT and Lexmark, as account manager, you would have known about it; correct?
> A. I should have known about it, yes.
> Q. And to your knowledge, one was not entered into; correct?
> A. Not finalized, no.
> Q. A contract had been discussed, negotiations had occurred, and then negotiations had been canceled prior to the execution of such agreement; correct?
> A. That's my understanding.

As outlined above, to establish a contract implied-in-fact there must be clear and convincing proof "that there was in fact an agreement, positively definite and mutually understood." *Veluzat,* 462 S.W.2d at 196-97. Not only has BDT failed to produce such clear and convincing proof, but also BDT's principals affirmatively testified that there was no meeting of the minds. At most, the evidence establishes that the parties negotiated the terms of a possible business arrangement and that BDT was very optimistic about concluding an agreement. As noted by Judge Heyburn in *Auto Channel, Inc. v. Speedvision Network, LLC,* 144 F. Supp.2d 784, 790 (W.D. Ky. 2001), however, "optimism

alone, however, cannot create binding obligations." Because there was no meeting of the minds, much less clear and convincing proof thereof, there is no implied-in-fact contract. For this reason, Lexmark is entitled to summary judgment on BDT's first cause of action.

Alternatively, Lexmark is entitled to summary judgment on BDT's first cause of action because the alleged agreement violates the Statute of Frauds. According to BDT, the subject of the parties' preliminary negotiations was a possible contract pursuant to which BDT would develop, manufacture, and sell input and output devices for certain of Lexmark's printers. Although, as BDT admits, the parties never agreed to the terms of such a contract, had they done so, their agreement would have been a contract for the sale of goods subject to Article 2 of Kentucky's Uniform Commercial Code. Article 2 contains a statute of frauds provision that provides:

> Except as otherwise provided in this section a contract for the sale of goods for the price of $500 or more is not enforceable by way of action or defense unless there is some writing sufficient to indicate that a contract for sale has been made between the parties and signed by the party against whom enforcement is sought or by his authorized agent or broker. A writing is not insufficient because it omits or incorrectly states a term agreed upon but the contract is not enforceable under this paragraph beyond the quantity of goods shown in such writing.

KRS § 355.2-201(1). As noted by the Kentucky Court of Appeals, the statute requires a signed writing "to provide evidence of a contract." *Lonnie Hayes & Sons Staves v. Bourbon Cooperage Co.*, 777 S.W.2d 940, 942 (Ky. Ct. App. 1989); *see also Walker v. Keith*, 382 S.W.2d 198, 203-

04 (Ky. 1964) ("The purpose of requiring a writing to evidence an agreement is to assure certainty of the essential terms thereof and to avoid controversy and litigation.")

In this case, there is no writing signed by Lexmark sufficient to indicate that the parties entered into the alleged contract. As discussed above, the parties exchanged incomplete drafts of a potential agreement. The last two drafts exchanged by the parties included many blanks, did not contain key exhibits or key terms, included proposed modifications, and were not signed or dated by any party. The cover memo from Lexmark accompanying the earlier draft stated that Lexmark was providing the draft "for initial review" by BDT. BDT in the cover letter to its counter-proposed draft requested Lexmark to "review [its] 'Development and Manufacturing' *proposal* agreements." (emphasis added).

Far from "indicating that a contract for sale has been made between the parties," as the statute requires, these draft proposals reflect on-going negotiations and the absence of a meeting of the minds. Further, although the drafts have designated signature blocks for the parties to manifest their assent to the terms of the proposed contracts, neither draft was signed or dated by a single party. These draft proposals clearly do not satisfy the statute of frauds requirement of Article 2. For this reason as well, Lexmark's first claim must fail.

B. PLAINTIFFS' THIRD CAUSE OF ACTION[4]

Plaintiffs' third cause of action amounts to a suit under the Kentucky Uniform Trade Secrets Act ("KUTSA"), KRS § 365.880 et seq.[5] "In order to prevail on a breach of the Uniform Trade Secrets Act claim, Plaintiffs must present evidence which satisfies a two prong inquiry. First, they must present evidence which indicates that the information they seek to protect qualifies as a protectable trade secret." *In re Dippin' Dots Patent Litigation,* 249 F. Supp.2d 1346 (N.D.

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[4] It is helpful to consider Plaintiffs' third cause of action, a claim under the Kentucky Uniform Trade Secrets Act ("KUTSA"), in light of the following relevant statutory language:

> 365.880 Definitions
>
> ...
>
> (2) "Misappropriation" means:
>
> ...
>
> (b) Disclosure or use of a trade secret of another without express or implied consent by a person ...
>
> ...
>
> (4) "Trade secret" means information, including a formula, pattern, compilation, program, data, device, method, technique, or process, that:
>
> ...
>
> (b) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Defendant's summary judgment motions argue that, on the undisputed facts of this case, these sections bar Plaintiffs' third cause of action.

[5] Although there is a paucity of Kentucky decision applying the KUTSA, "because KUTSA is a uniform law ... decisions in other jurisdictions provide guidance for its application and construction." *Auto Channel, Inc.*, 144 F. Supp. 2d at 788.

Ga. 2003)(citing *Auto Channel, Inc. v. Speedvision Network, LLC,* 144 F. Supp.2d 784, 794 (W.D. Ky. 2001)). "To show the information is entitled to protection, Plaintiffs must put forward evidence demonstrating that the information (1) has independent economic value, (2) is not readily ascertainable by proper means, and (3) was the subject of reasonable efforts to maintain its secrecy." *Id.* (citing KRS § 365.880). In the instant case, the subject of Defendant's challenge is the last of these.

But, of course, it is not enough merely to show that the information is entitled to protection. Rather, Plaintiffs must also show that the protected information has been misappropriated. "To prove misappropriation, Plaintiffs must show that the trade secret was acquired by improper means, was disclosed improperly, or was used by someone without proper consent." *Id.* (citing KRS § 365.880).

For the reasons that follow, the Court finds that (1) because Plaintiffs did not take reasonable efforts under the circumstances to maintain the subject information's secrecy, the subject information does not qualify as a "trade secret" under KRS § 365.880(4)(b); and (2) even assuming, *arguendo,* that the subject information qualifies as a trade secret under the statute, that information was not misappropriated.

1. The Subject Information is Not a "Trade Secret" Under KRS § 365.880(4).

To qualify as a trade secret, BDT must demonstrate that the technology at issue:

> (a) Derives independent economic value, actual or potential, from not being generally known to, and not

> being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
>
> (b) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

KRS § 365.880(4); *see, e.g., Courtesy Temporary Service, Inc. v. Camacho,* 222 Cal.App.3d 1278, 1286-87, 272 Cal. Rptr. 352 (Ca. 1990).

BDT cannot establish that the information at issue here constitutes a legally cognizable trade secret. BDT disclosed the entirety of the alleged trade secrets to Hewlett Packard and Tektronix from 1993 through May 1994 without securing protection for these disclosures, and the BDT System lost any trade secret protection it may have had at that time. Yet, as noted above, BDT did not disclose to Lexmark several of the components required to constitute the BDT System combination trade secret until August 1994 and February 1995. Thus, the BDT System ceased to be a trade secret even before BDT fully disclosed it to Lexmark.

BDT's misappropriation claim fails because BDT did not take reasonable steps to maintain the secrecy of its alleged trade secrets. It is axiomatic that without secrecy, no trade secret can exist. As the United States Supreme Court explained, once a trade secret is disclosed to "others who are under no obligation to protect the confidentiality of the information, or [is] otherwise publicly disclosed ..., [the] proprietary right is extinguished." *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1002, 81 L. Ed. 2d 815, 104 S. Ct. 2862 (1984). *See, e.g., Secure Services Technology Inc. v. Time & Space Processing, Inc.*, 722 F. Supp. 1354, 1359-62 (E.D. Va. 1989) (applying California law, district court held that

sale by Plaintiff of secure facsimile machine to federal government without restrictions prohibiting use of secret communication protocols waived trade secret status because Plaintiff did not adequately protect trade secrets); *S&S Enterprises, Inc. v. Hubert,* 169 U.S.P.Q. 611 (5th Dist. 1971)(defendants not liable for misappropriation when plaintiff, among other things, disclosed trade secrets at an iPdustry conference). "The inquiry simply boils down to the question: was this information truly a secret?" *Penalty Kick Mgmt., Ltd. v. The Coca-Cola Co.,* 164 F. Supp.2d 1376, 1380-81 (N.D. Ga. 2001).

A failure to require a third party to enter a confidentiality agreement to protect alleged trade secrets is one clear way to waive any trade secret protection that might exist. *See, e.g., Auto Channel, Inc. v. Speedvision Network, LLC,* 144 F. Supp.2d 784, 795 (W.D. Ky. 2001) (plaintiffs waived any possible trade secret protection when they sent alleged trade secret television pilot concepts as unsolicited promotional materials to cable networks, with no requirement of secrecy); *BioCORE, Inc. v. Khosrowshahi,* 96 F. Supp.2d 1221, 1232 (D. Ks. 2000)(no protection where Plaintiffs' marketing materials, provided without confidentiality requirements, included results of efficacy studies claimed as trade secret). Entering into an agreement, but placing few or no restrictions on the uses a third party can make of a trade secret, is another sure path to waiver. *See, e.g., Contracts Materials Processing, Inc. v. Kataleuna GMBH Catalysts,* 164 F. Supp.2d 520, 534 (D. Md. 2001)(plaintiffs entered into agreement that placed no restrictions on the uses defendants could make of alleged trade secrets). Thus, as set forth below, any proprietary interest BDT might have had in the BDT System or the other related trade secrets was extinguished when BDT revealed its trade secrets to third parties without requiring those parties to keep that information a secret.

As discussed above, it is undisputed that BDT disclosed all of its purported trade secrets embodied in its BDT System to both Hewlett Packard and Tektronix under "one-way" confidentiality agreements that only protected the confidences of Hewlett Packard and Tektronix, respectively, not those held by BDT. Those agreements did not obligate either Hewlett Packard or Tektronix to keep confidential any information that BDT disclosed. According to the testimony of Hewlett Packard, and as confirmed by the documents produced by both BDT and Hewlett Packard, BDT disclosed the entirety of the BDT System (including the Teflon Guide Finger) to Hewlett Packard by no later than May 1994. Through these unprotected disclosures, BDT removed any trade secret protection its BDT System or the other alleged trade secrets might have had.

Such disclosures to Hewlett Packard and Tektronix without reasonable efforts to maintain secrecy nullifies any claim that BDT might have had for trade secret protection. In a case decided under the Maryland version of the UTSA, a district court granted Defendant's motion for summary judgment on a trade secret misappropriation claim under the very same circumstances. In holding that Plaintiff had failed to demonstrate that it had made reasonable efforts to maintain secrecy, the district court noted that none of the several agreements at issue in the case "restricted [Defendant] from disclosing the information. In fact, the R&D Agreement only requires [Plaintiff] ... to maintain secrecy and confidentiality. No similar restriction is placed on [Defendant]." *Contracts Materials Processing, Inc. v. Kataleuna,*, 164 F. Supp.2d 520, 534 (D. Md. 2001).

Similarly, in another case applying the UTSA, the Fifth Circuit noted that when the holder of the trade secret disclosed his improvement to a motorcycle exhaust system to

representatives of Yamaha, he waived trade secret protection by failing to take reasonable efforts at secrecy. *Sheets v. Yamaha Motors Corp.*, 849 F.2d 179, 183-84 (5th Cir. 1988). As the Fifth Circuit wrote: "A disclosure of a trade secret to others who have no obligation of confidentiality extinguishes the property right of the trade secret." *Id.* Numerous other courts have made similar holdings. *See, e.g., FSI Int'l, Inc. v. Shumway,* 2002 U.S. Dist. LEXIS 3388, 2002 WL 334409, *9 (D. Minn. 2002)(because employees had ability to disclose trade secrets on a "need-to-know" basis to third parties not required to sign a confidentiality agreement, Plaintiff had not taken reasonable efforts to maintain secrecy); *Southwest Whey, Inc. v. Nutrition 101, Inc.*, 117 F. Supp.2d 770, 779-80 (C.D. Ill. 2000)(failure to require secrecy of contractors and joint venturer negated trade secrecy, even though each individual contractor was only privy to a small part of the trade secret that was the larger, allegedly secret system); *Motor City Bagels, L.L.C. v. American Bagel Co.*, 50 F. Supp.2d 460, 476, 480 (D. Md. 1999)(disclosure of business plan to potential investors without agreement of secrecy was "inconsistent with recognition of the document as a trade secret").

The same result obtains in the instant case. The undisputed evidence shows that BDT failed to obligate Hewlett Packard or Tektronix to keep the BDT System (or other alleged trade secrets) secret - and BDT therefore forfeited any grounds to now claim trade secret protection. Accordingly, BDT's disclosures to Hewlett Packard and Tektronix of the entirety of the BDT System, without the protection of confidential disclosure agreements that protected BDT's proprietary rights, erased and extinguished any viable trade secret that might have existed. As the foregoing cases make clear, BDT's execution of numerous agreements that protected information disclosed by Hewlett Packard and Tektronix, but that did not

afford any protection for information disclosed by BDT, is the antithesis of "reasonable efforts" to maintain secrecy.

Plaintiffs' counter-argument to Defendant's allegations that Plaintiffs in their dealings with HP and Tektronix failed to take reasonable steps to preserve secrecy is that, though the written agreements between Plaintiffs and HP and Tektronix protected only HP and Tektronix - not Plaintiffs - these organization were nonetheless *impliedly* obligated to maintain secrecy. In other words, Plaintiffs argue, the absence of an express duty does not mean that a duty cannot arise by implication.

The case law, however, supports the opposite conclusion, and this Court is of the opinion that any questions about the existence of any implied duty of confidentiality in circumstances where there is an express agreement between the parties (protecting one party, but not the other) were answered by the United States District Court for the Northern District of Georgia in *In re Dippin' Dots Patent Litigation,* 249 F. Supp.2d 1346 (N.D. Ga. 2003) (applying KUTSA). In *Dippin Dots',* the Northern District of Georgia - in a case factually indistinguishable in all material respects - flatly rejected the notion of an implied duty of confidentiality for claims brought under the Uniform Trade Secrets Act. Addressing Plaintiffs' contention that "there was an implied duty on Defendants to maintain the secrecy of Plaintiffs' protected information," the District Court in *Dippin' Dots* answered to the contrary. "The lack of a confidentiality agreement between the parties obviates Plaintiffs Uniform Act claims." *Id.* at 1376. The Court arrived at this conclusion because the Uniform Act focused "on whether a plaintiff used reasonable efforts to protect the confidentiality of its putative trade secrets. Because simple measures, such as identifying materials as trade secret and using a written confidentiality

agreement, are available to protect sensitive information, the Uniform Act will not imply a confidential relationship between parties." *Id.* 1376-77. The Court granted summary judgment on this basis.[6]

Thus, for the reasons outlined above, because Plaintiffs failed to secure written confidentiality agreements with HP and Tektronix, it cannot be said that Plaintiffs took reasonable steps to ensure the privacy of the subject information. Because Plaintiffs failed to take such reasonable steps, the subject information does not qualify as a "trade secret" under KUTSA. Because the information cannot be considered a "trade secret," Plaintiffs third cause of action for misappropriation must fail.

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[6] Also factoring significantly into the *Dippin' Dots* court's decision - and factoring significantly in this Court's decision as well - is the recognition that, though there exists a line of cases supporting the idea of an implied duty, the "doctrine of an implied duty to maintain confidences comes out of a line of cases which ... [do] not arise under the Uniform Act." *Dippin' Dots*, 249 F. Supp.2d at 1376. Other courts have made similar observations. For example, the United States District Court for the Eastern District of Michigan in *Rogers v. Desa Int'l, Inc.*, 183 F. Supp.2d 955, 958 (E.D. Mich. 2002), remarked that while a few pre-UTSA cases may "contain language supporting the concept of an implied duty of confidentiality, counsel could point to no case in which such an implication was enough under the Uniform Trade Secret Act." Likewise, Plaintiffs in the instant case do not (and cannot) provide any UTSA authority to support the proposition that HP or Tektronix had an implied agreement to keep Plaintiffs' technology confidential.

2. Even Assuming that the Information *Is* a Trade Secret under KUTSA, the Parties' Multiple Agreements Permitting Unrestricted Use of Information by BDT to Lexmark Negates Any Purported Misappropriation

Even assuming that BDT can establish it had enforceable trade secrets, to recover on its trade secrets claim BDT must prove that Lexmark misappropriated those trade secrets. KRS § 365.880(2). Thus, BDT must be able to show that Lexmark used the alleged trade secrets "without express or implied consent," despite knowing or having reason to know that it acquired knowledge of the alleged trade secrets "under circumstances giving rise to a duty to ... limit [their] use." KRS § 365.880(2)(b). As set forth above, the parties' many agreements concerning confidential information expressly permitted Lexmark to use any information provided by BDT. These agreements and this permission is the equivalent of "express or implied consent." In view of the relationship and understandings established by these agreements, Lexmark simply cannot be found to have knowingly used any BDT trade secret in contravention of a "duty to ... limit its use." KRS § 365.880(2)(b).

As set forth above, between 1990 and 1996, Lexmark and BDT entered into no less than seven confidentiality agreements. While these seven agreements are not identical, all seven expressly provide that Lexmark was free to use any information BDT disclosed to Lexmark, even if BDT designated that information as confidential. Lexmark was also expressly free to disclose any such information to the extent disclosure occurred through the marketing of Lexmark's own products. Over this six year period, based upon the numerous express contracts between Lexmark and BDT, Lexmark had

a clear and reasonable understanding that it was free to use any information disclosed by BDT.

BDT not only willingly executed the agreements, it even cited and relied on those very same agreements in the Verified Complaint at the inception of this dispute, as well as in several later amended complaints. For example, after referring to the execution of the parties' first two "Confidential Disclosure Agreements," BDT's president, Glenn Klein, swore under oath that: "In accepting and utilizing such technology from BDT, Lexmark affirmed, both expressly and implicitly, the Confidential Disclosure Agreements between the two companies." Several paragraphs later, Mr. Klein further swore that: "After BDT's demonstration in Lexington in May 1993, both BDT and Lexmark, pursuant to Dr. Curlander's request, executed their first two-way Confidential Agreement, which confirmed that BDT could disclose its trade secrets in confidence to Lexmark." *Id.* at ¶15. Likewise, BDT's president further swore under oath that: "Pursuant to its various Confidential Disclosure Agreements ... BDT disclosed those valuable trade secrets to Lexmark ...." *Id.* at ¶43. BDT's president also swore under oath that:

> In early 1994, BDT and Lexmark amended their prior Confidential Disclosure Agreements to expressly cover particular BDT products related to paper input and paper output systems. *Pursuant to those agreements* ... BDT continued to disclose to Lexmark's engineers its confidential technology, trade secrets and general paper handling know-how. BDT also continued to provide Lexmark with samples of its re-designed prototypes for in-house evaluation and testing by Lexmark's engineering staff.

Id. at ¶17 (emphasis added). BDT repeated all four of these admissions in two subsequent complaints filed in 1998 in the Southern District of California and the Central District of California.

In 1999, Lexmark pointed out to BDT that the written agreements cited in BDT's complaints unassailably establish that Lexmark was free to use any information furnished to it by BDT. Soon thereafter, by way of the amended complaint in this case, BDT excised all eleven of its references to the written confidentiality agreements from its complaint. BDT's revision of the complaint, however, cannot erase the numerous admissions under oath that undermine its case.

Because it is undisputed that the parties repeatedly entered into confidentiality agreements that expressly and unambiguously disclaimed any restrictions on Lexmark's use of information provided by BDT, it is axiomatic that no express or implied duty restricting Lexmark's use of such information can be found here. See MILGRIM ON TRADE SECRETS § 3.03 (Matthew Bender & Co. 2002) ("Express disclaimer by the disclosee of a confidential relationship from the outset will dispel the existence of such a relationship."); TRADE SECRETS -- A PRACTITIONER'S GUIDE, Ch. 6, Express Disclaimers (Practicing Law Institute 2002) ("Parties may expressly disclaim a confidential relationship. When parties enter a valid contract of this sort, confidentiality obligations are negated between the parties, and trade secrets communicated during the relationship may be used or disclosed freely.").

Indeed, at least one court has questioned whether Kentucky's Uniform Trade Secrets Act *ever* permits the imposition of an implied duty of confidence - even where the parties have executed no agreement on the subject. *See*

Rogers v. Desa Intl., Inc., 183 F. Supp.2d 955, 957-58 (E.D. Mich. 2002). BDT's sworn admissions reveal and confirm that it disclosed the alleged trade secrets to Lexmark pursuant to the seven confidentiality agreements. Those seven agreements all expressly provide that Lexmark was free to use the information communicated by BDT and removes any possibility that Lexmark had an implied duty not to use BDT's confidential information. *See, e.g., Burten v. Milton Bradley Co.*, 763 F.2d 461, 463-64 (1st Cir. 1985) ("An implied confidential relationship can be defeated ... if the parties, by agreement, expressly disclaim such a relationship.")

Nevertheless, BDT now alleges that the parties also executed one additional confidentiality agreement that did not contain the same disclaimer of use restrictions that all of the parties' other written confidentiality agreements contained. According to BDT, in March 1993 one of Lexmark's former employees, John Brown, signed a confidentiality agreement at a technology fair (called CeBit) in Hannover Germany. BDT asserts that this purported agreement contained a restriction on Lexmark's use of information provided by BDT, in contradiction of all the other confidentiality agreements that were entered into by the parties both before and after the alleged 1993 Hannover confidentiality agreement. Mr. Brown, who left Lexmark two years before this lawsuit was filed, and the other Lexmark employees who were with Mr. Brown in Germany in 1993 when he allegedly signed the Hannover confidentiality agreement, steadfastly deny BDT's allegation that any such agreement was signed by Lexmark or even proposed by BDT.

BDT claims that the alleged 1993 Hannover confidentiality agreement and any copies thereof were misplaced during an office move. This assertion stands in stark contrast to the fact that although both BDT and Lexmark

were able to locate during the course of discovery multiple copies of every single one of the seven existing confidential disclosure agreements and confidential exchange agreements entered into by the parties, neither party has been able to produce even a single copy of the 1993 Hannover confidentiality agreement.

Simply put, BDT is unable to prove the existence of the 1993 Hannover confidentiality agreement. Given that BDT does not have a copy of the agreement to introduce at trial, it will, by necessity, be forced to prove the existence and contents of the agreement via oral testimony. Kentucky law, however, does not permit this.

BDT must establish sufficient proof of a valid and enforceable contract. Federal courts in diversity cases look to applicable state law for such criteria, including the requisite level of proof. Kentucky law requires that the evidence necessary to establish a lost writing "must be clear and satisfactory." *Suter v. Suter,* 278 Ky. 403, 128 S.W.2d 704, 706 (Ky. 1939). Indeed, Kentucky courts have approvingly quoted the early decision of the United States Supreme Court in *Tayloe v. Riggs* on the same subject:

> When a written contract is to be proved, not by itself but by parole testimony, no vague uncertain recollection concerning its stipulations ought to supply the place of the written instrument itself. The substance of the agreement ought to be proved satisfactorily; and if that cannot be done, the party is in the condition of every other suitor in Court, who makes a claim he cannot support. When parties reduce their contract to writing, the obligations and rights of each are described, and limited by the instrument itself. The safety which is expected from them, would

> be much impaired, if they could be established upon uncertain and vague impressions made by a conversation antecedent to the reduction of the agreement.

Arrington v. Sizemore, 241 Ky. 171, 43 S.W.2d 699, 704 (Ky. 1931) (quoting *Tayloe v. Riggs*, 26 U.S. 591, 600, 7 L. Ed. 275 (1828)). The deposition testimony provided by BDT concerning the alleged 1993 Hannover confidentiality agreement falls well short of what is necessary to survive summary judgment under Kentucky's heightened standard of proof. To avoid summary judgment, BDT must point to evidence in the record upon which a reasonable juror could find by "clear and satisfactory" proof that the Hannover confidentiality agreement had been executed and the specific terms of the agreement were reasonable clear. BDT cannot do that because the testimony of its witnesses has been able to provide, at best, only the "vague uncertain recollection" of the agreement that the Kentucky court have found insufficient. In fact, the only BDT witness who remembers anything about the contents of the alleged 1993 Hannover confidentiality agreement has completely contradicted himself concerning key aspects of the agreement.

When BDT was first questioned about the alleged 1993 Hannover confidentiality agreement, it was able to provide very little detail concerning the terms thereof. During a deposition taken in July 1999, six years after the alleged 1993 Hannover confidentiality agreement was signed, Mr. Klein (the BDT president who signed all seven of the known Lexmark/BDT confidentiality agreements discussed above) testified that the 1993 Hannover confidentiality agreement: (1) was a short, one page document; (2) had only two enumerated paragraphs; (3) only required Lexmark not to disclose BDT's information; (4) listed all of BDT's new

products and technology that were to be governed under the agreement; (5) was executed before BDT's trade secrets were shown to Lexmark. Mr. Klein also testified that a copy of the agreement was taken by John Brown, who purportedly signed the agreement on behalf of Lexmark. This testimony constituted everything of substance that Mr. Klein recalled about the 1993 Hannover confidentiality agreement.

Three years later, in 2002, Mr. Klein testified again about the lost 1993 Hannover confidentiality agreement. This time Mr. Klein actually remembered significantly more about that agreement, most of which was inconsistent with his testimony in 1999.

Specifically, Mr. Klein first testified in 1999 that the agreement consisted of "two paragraphs on a page," yet in 2002 he testified that the agreement contained a preamble and "five or six" line items set out in separate enumerated paragraphs. In 1999, Mr. Klein failed to recall any choice-of-law provision in the agreement, yet he testified in 2002 that the last paragraph in the document had a German choice-of-law provision. Similarly, Mr. Klein did not mention any provisions concerning "software codes" or unissued patents when he testified in 1999, but he somehow recalled in 2002 that there was some mention of unissued patents as well as "a paragraph stating something about software codes." Mr. Klein also testified in 1999 that Mr. Brown signed the document before viewing BDT's purported trade secrets, but he testified in 2002 that Mr. Brown signed the document only after viewing the trade secrets.

Finally, even as to the element of the agreement that is the most critical to BDT's strained argument, the express use restriction purportedly placed upon Lexmark by way of the 1993 Hannover confidentiality agreement, Mr. Klein's

testimony was inconsistent. In 1999, Mr. Klein testified that the 1993 Hannover confidentiality agreement provided only that Lexmark "would not disclose" BDT's information, while in 2002 he provided testimony more consistent with BDT's current theory, claiming that the 1993 Hannover confidentiality agreement required that BDT's information "be held confidential and for the use only of BDT." Thus, even as to the ultimate provision in the purported 1993 Hannover confidentiality agreement, BDT's witness contradicted himself. It follows that BDT has failed to prove by clear and substantial evidence the obligations to which Lexmark allegedly agreed in Germany in 1993.

Mr. Steinhilber, who allegedly drafted and signed the 1993 Hannover confidentiality agreement, remembers virtually nothing about it except "the general proposition as to what it was to cover." Also, as mentioned above, the former Lexmark employee who allegedly signed that agreement in fact denies its very existence.

Given the inconsistent nature of BDT's proffered testimony, the Court finds that the evidence of the lost agreement is nothing more than the kind of "vague uncertain recollection" that Kentucky courts find insufficient as a matter of law. Indeed, BDT's vague collective recollection provides little insight into the specific terms of the lost 1993 Hannover confidentiality agreement and is almost completely internally inconsistent. Under these circumstances, BDT cannot establish the existence or contents of the lost 1993 Hannover confidentiality agreement by "clear and satisfactory" proof. *See e.g., Rash v. Peoples Deposit Bank & Trust Co.*, 192 F.2d 470 (6th Cir. 1951) (stating that, under Kentucky law, "where evidence is contradictory on the part of witnesses for the same party, where assumed recollection of specific facts after the lapse of years taxes the credulity of a court or is

shaken by what we have called 'destructive analysis', it fails to meet the test required to establish a lost agreement"); *M. P. Bros. Co. v. Kirkpatrick*, 214 Ky. 560, 283 S.W. 424, 425-26 (Ky. 1926) ("clear and satisfactory proof" requirement not met where testimony of "reputable businessmen" from both parties was at odds).

Because BDT cannot satisfactorily establish the existence or terms of the alleged 1993 Hannover confidentiality agreement upon which it relies, BDT has no basis upon which to argue that the alleged agreement prevented Lexmark from using the information disclosed to it. Moreover, the seven other written agreements entered into and produced by the parties all expressly and unambiguously disclaim any restriction on Lexmark's use of information received from BDT. For these reasons, even assuming that the information at issue may be considered a "trade secret" under KUTSA, that trade secret was not misappropriated and Lexmark is entitled to summary judgment.

BDT attempts to skirt the problem presented by the parties' agreements by noting that it "corrected" the "misimpression" that the agreements applied to the disclosures at issue in this case at the deposition of its representative and by amending its pleading. The agreements do not in fact apply, argue Plaintiffs, and - to the extent the question is debatable - the question is one for a jury.

The problem, however, is that Plaintiffs original position in this litigation was that the disclosed information *was* protected by the parties disagreements (i.e., that the agreements *did* apply). In accord with this position, Plaintiffs' initial testimony was in accordance with this view. For example, Plaintiffs in their initial verified pleadings respecting the parties May 11, 1993 "two-way" Confidentiality

Exchange Agreement, No. 4746, are explicit in alleging that they disclosed their alleged "secrets" to Lexmark pursuant to the terms of that agreement. Wrote Plaintiffs: "After BDT's demonstration in Lexington in May of 1993, both BDT and Lexmark, pursuant to Dr. Curlander's request, executed their first two-way Confidential Disclosure Agreement, which confirmed that BDT could disclose its trade secrets in confidence to Lexmark." Verified Complaint, at P15.

To be sure, Plaintiffs have the right to amend their complaint and to argue alternative legal theories. *They do not, however, have the right to amend their sworn testimony so as to create a genuine issue of fact. See Penny v. United States Parcel Service,* 128 F.3d 408, 417 (6th Cir. 1997)(noting that "a party cannot create a genuine issue of material fact by filing an affidavit, after a motion for summary judgment has been made, that essentially contradicts his earlier deposition testimony); *see also Cleveland v. Policy Mgmt. Sys. Corp.*, 526 U.S. 795, 806, 119 S. Ct. 1597, 143 L. Ed. 2d 966 (1999); *Reid v. Sears, Roebuck and Co.*, 790 F.2d 453, 460 (6th Cir. 1986). Plaintiffs' latest position - that is, that the parties' agreements do *not* apply - is in the abstract a valid legal position, but, to the extent that Plaintiffs attempt to support it by proferring testimony inconsistent with earlier testimony, it lacks evidentiary support.

Plaintiffs' other argument - that Plaintiff Buro-Datentechnik GMBH & Co.KG (Buro-Datentechnik) was not explicitly a party to the written agreements with Lexmark and therefore is not bound by the disclosure terms of those agreements - fails for similar reasons. Specifically, Plaintiffs' Verified Complaint and other pleadings repeatedly acknowledged that those agreements bound *both* Plaintiffs and that *both* Plaintiffs disclosed their alleged secrets pursuant to those agreements. Also, Plaintiffs' Answer to Lexmark's

counterclaim admitted that both Plaintiffs were parties to those agreements.

IV. CONCLUSION

In the first instance, because Plaintiffs' failed to take reasonable steps to insure the secrecy of their information (namely, entering into a written confidentiality agreement) Plaintiffs' disclosed information is not a "trade" secret under the KUTSA. Even assuming that the information qualifies as a trade secret, however, Defendant's use of the information was protected by the parties' multiple agreements and as such was not misappropriated. Summary judgment is therefore appropriate.

Accordingly,

IT IS ORDERED that Defendant's motions for summary judgment [Record Nos. 304 and 305] be, and the same hereby are, **GRANTED**.

This 31 day of July, 2003.

/s/_____
Joseph M. Hood

APPENDIX E

KENTUCKY UNIFORM TRADE SECRETS ACT AND UNIFORM TRADE SECRETS ACT

* * *

KENTUCKY UNIFORM TRADE SECRETS ACT

KENTUCKY REVISED STATUTES

TITLE XXIX. COMMERCE AND TRADE
CHAPTER 365. TRADE PRACTICES
UNIFORM TRADE SECRETS ACT

§ 365.880. Definitions

As used in KRS 365.880 to 365.900, unless the context requires otherwise:

(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means;

(2) "Misappropriation" means:

(a) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(b) Disclosure or use of a trade secret of another without express or implied consent by a person who:

1. Used improper means to acquire knowledge of the trade secret; or

2. At the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was:

a. Derived from or through a person who had utilized improper means to acquire it;

b. Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

c. Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

3. Before a material change of his position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

(3) "Person" means a natural person, corporation, business trust, estate, trust, partnership, association, joint venture, government, governmental subdivision or agency, or any other legal or commercial entity.

(4) "Trade secret" means information, including a formula, pattern, compilation, program, data, device, method, technique, or process, that:

(a) Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and

(b) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

§ 365.882. Injunctive relief

(1) Actual or threatened misappropriation may be enjoined. Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.

(2) In exceptional circumstances, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited. Exceptional circumstances shall include, but not be limited to, a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable.

(3) In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.

§ 365.884. Damages

(1) Except to the extent that a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation renders a monetary recovery inequitable, a

complainant shall be entitled to recover damages for misappropriation. Damages may include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.

(2) If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subsection (1).

§ 365.886. Attorney's fees

If a claim of misappropriation is made in bad faith, a motion to terminate an injunction is made or resisted in bad faith, or willful and malicious misappropriation exists, the court may award reasonable attorney's fees to the prevailing party.

§ 365.888. Preservation of secrecy

In an action under KRS 365.880 to 365.900, a court shall preserve the secrecy of an alleged trade secret by reasonable means, which may include granting protective orders in connection with discovery proceedings, holding in-camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.

§ 365.890. Statute of limitations

An action for misappropriation must be brought within three (3) years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. For the purposes of this section, a continuing misappropriation constitutes a single claim.

§ 365.892. Effect on other laws

(1) Except as provided in subsection (2) of this section, KRS 365.880 to 365.900 replaces conflicting tort, restitutionary, and other law of this state providing civil remedies for misappropriation of a trade secret.

(2) KRS 365.880 to 365.900 shall not affect:

(a) Contractual remedies, whether or not based upon misappropriation of a trade secret;

(b) Other civil remedies that are not based upon misappropriation of a trade secret; or

(c) Criminal remedies, whether or not based upon misappropriation of a trade secret.

§ 365.894. Uniformity of application and construction

KRS 365.880 to 365.900 shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of KRS 365.880 to 365.900 among states enacting it.

§ 365.896. Short title

KRS 365.880 to 365.900 may be cited as the Uniform Trade Secrets Act.

§ 365.898. Severability

If any provision of KRS 365.880 to 365.900 or its application to any person or circumstances is held invalid, the invalidity shall not affect other provisions or applications of KRS 365.880 to 365.900 which can be given effect without the invalid provision or application, and to this end the provisions of KRS 365.880 to 365.900 shall be severable.

§ 365.900. Effective date -- When applicable to misappropriation

KRS 365.880 to 365.900 shall take effect on July 13, 1990, and shall not apply to misappropriation occurring prior to July 13, 1990. With respect to a continuing misappropriation that began prior to July 13, 1990, KRS 365.880 to 365.900 also shall not apply to the continuing misappropriation that occurs after July 13, 1990.

UNIFORM TRADE SECRETS ACT

§ 1. Definitions.

As used in this [Act], unless the context requires otherwise:

(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means;

(2) "Misappropriation" means:

(i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(ii) disclosure or use of a trade secret of another without express or implied consent by a person who

(A) used improper means to acquire knowledge of the trade secret; or

(B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was

(I) derived from or through a person who had utilized improper means to acquire it;

(II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

(III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

(C) before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

(3) "Person" means a natural person, corporation, business trust, estate, trust, partnership, association, joint venture, government, governmental subdivision or agency, or any other legal or commercial entity.

(4) "Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

(i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and

(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

NOTICE: [A> UPPERCASE TEXT WITHIN THESE SYMBOLS IS ADDED <A]
[D> Text within these symbols is deleted <D]

§ 2. Injunctive Relief.

(a) Actual or threatened misappropriation may be enjoined. Upon application to the court, an injunction

shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.

(b) [D> If the court determines that it would be unreasonable to prohibit future use <D] [A> IN EXCEPTIONAL CIRCUMSTANCES, <A] an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time [D> the <D] [A> FOR WHICH <A] use could have been prohibited. [A> EXCEPTIONAL CIRCUMSTANCES INCLUDE, BUT ARE NOT LIMITED TO, A MATERIAL AND PREJUDICIAL CHANGE OF POSITION PRIOR TO ACQUIRING KNOWLEDGE OR REASON TO KNOW OF MISAPPROPRIATION THAT RENDERS A PROHIBITIVE INJUNCTION INEQUITABLE. <A]

(c) In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.

§ 3. Damages.

(a) [D> In addition to or in lieu of injunctive relief <D] [A> EXCEPT TO THE EXTENT THAT A MATERIAL AND PREJUDICIAL CHANGE OF POSITION PRIOR TO ACQUIRING KNOWLEDGE OR REASON TO KNOW OF MISAPPROPRIATION RENDERS A MONETARY RECOVERY INEQUITABLE, <A] a complainant [D> may <D] [A> IS ENTITLED TO <A] recover damages for [D> the actual loss caused by <D] misappropriation. [D> A complainant also may recover for <D] [A> DAMAGES CAN INCLUDE BOTH THE

ACTUAL LOSS CAUSED BY MISAPPROPRIATION AND <A] the unjust enrichment caused by misappropriation that is not taken into account in computing [D> damages for <D] actual loss. [A> IN LIEU OF DAMAGES MEASURED BY ANY OTHER METHODS, THE DAMAGES CAUSED BY MISAPPROPRIATION MAY BE MEASURED BY IMPOSITION OF LIABILITY FOR A REASONABLE ROYALTY FOR A MISAPPROPRIATOR'S UNAUTHORIZED DISCLOSURE OR USE OF A TRADE SECRET. <A]

(b) If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subsection (a).

§ 4. Attorney's Fees.

If (i) a claim of misappropriation is made in bad faith, (ii) a motion to terminate an injunction is made or resisted in bad faith, or (iii) willful and malicious misappropriation exists, the court may award reasonable attorney's fees to the prevailing party.

§ 5. Preservation of Secrecy.

In an action under this [Act], a court shall preserve the secrecy of an alleged trade secret by reasonable means, which may include granting protective orders in connection with discovery proceedings, holding in-camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.

§ 6. Statute of Limitations.

An action for misappropriation must be brought within 3 years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. For the purposes of this section, a continuing misappropriaton constitutes a single claim.

§ 7. Effect on Other Law.

(a) [D> This <D] [A> EXCEPT AS PROVIDED IN SUBSECTION (b), THIS <A] [Act] displaces conflicting tort, restitutionary, and other law of this State [D> pertaining to <D] [A> PROVIDING <A] civil [D> liability <D] [A> REMEDIES <A] for misappropriation of a trade secret.

(b) This [Act] does not affect:

(1) contractual [D> or other civil liability or relief that is <D] [A> REMEDIES, WHETHER OR <A] not based upon misappropriation of a trade secret [D> ; or <D]

(2) [D> criminal liability for <D] [A> OTHER CIVIL REMEDIES THAT ARE NOT BASED UPON <A] misappropriation of a trade secret [A> ; OR <A]

[A> (3) CRIMINAL REMEDIES, WHETHER OR NOT BASED UPON MISAPPROPRIATION OF A TRADE SECRET. <A]

§ 8. Uniformity of Application and Construction.

This [Act] shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this [Act] among states enacting it.

§ 9. Short Title.

This [Act] may be cited as the Uniform Trade Secrets Act.

§ 10. Severability.

If any provision of this [Act] or its application to any person or circumstances is held invalid, the invalidity does not affect other provisions or applications of the [Act] which can be given effect without the invalid provision or application, and to this end the provisions of this [Act] are severable.

§ 11. Time of taking effect.

This [Act] takes effect on [A> ------ <A], and does not apply to misappropriation occurring prior to the effective date. [A> WITH RESPECT TO A CONTINUING MISAPPROPRIATION THAT BEGAN PRIOR TO THE EFFECTIVE DATE, THE [ACT] ALSO DOES NOT APPLY TO THE CONTINUING MISAPPROPRIATION THAT OCCURS AFTER THE EFFECTIVE DATE. <A]

§ 12. Repeal.

The following Acts and parts of Acts are repealed:

(1)

(2)

(3)